Strategic Advantage
Real Estate Insights, Forecasts & Strategies
Editor: Christopher Lee

Issue K061820

What Will The Real Estate Industry Look Like In The New Normal?

In This Issue

- *Major Transformative Shifts Are Underway*
- *The Definition Of Work, Workers & Consumerism Is Shifting*
- *Outlook For Office Buildings & Space*
- *Outlook For Industrial Buildings & Space*
- *Outlook For Retail Buildings & Space*
- *Outlook For Multifamily Buildings & Space*
- *Outlook For Real Estate Operations*
- *Closing Comments*

Friends & Colleagues:

How long will this last, and what comes next? What surprises or events will occur? What does tomorrow look like? These four questions are repeated almost daily in real estate companies as principals, CEOs, Boards of Directors and senior leaders seek to shape strategies, policies and tactics for the post COVID-19 outbreak. The future is not what was envisioned in late 2019. **One must stop assuming that "things will get back to normal"…they won't!** Every real estate firm will need to accelerate the transformation around best practices [generated daily], collaboration, flexibility and focused priorities. The coronavirus was and is a world-changing event that has touched the lives of nearly everyone on the planet, and recent social protests have further highlighted the challenges ahead. While it is impossible to have a generic outcome and timing for all, **the real estate industry is at the precipice of challenge or opportunity, distant memories or long-term relevance and inactivity vs. strategic action**. The lessons of the past, experiences of the present and the visionary expectations for what can be are embedded in the going-forward priorities for every real estate firm. You don't have to figure it out completely before taking action…just start taking the next steps. Albert Einstein said, "Life is like riding a bicycle. To keep your balance, you must keep moving." While **the hardest part of going forward is not looking back, the enormous impact of the coronavirus and social unrest is a gateway to an abundance of opportunities**. Don't look back…that is not where you are going. In this environment, you will need to run just to stay in place. The real estate industry must do more than merely react and adapt. The events of the past five months simply have accelerated the transformative changes already underway!

The Real Estate Industry Is In 3 Distinct Cycles	
Mega Cycles – Occur Every 40 Years	
1920 – 1960	Nation Building
1960 – 2000	Boomer Awakening
2000 – 2040	*Digital Age*
Super Cycles – Occur Every 20 Years	
1920 – 1940	Infrastructure Expanse
1940 – 1960	Post-War Economy
1960 – 1980	Period of Social Change & Challenge
1980 – 2000	Financial Engineering
2000 – 2020	Internet of Everything
2020 – 2040	*Generational & Demographic Transition*
Decades Cycles – Occur Every 10 Years	
1990 - 1999	Age of Start-ups, Entrepreneurism & Multiculturism
2000 – 2009	Age of Exuberance and Debt
2010 – 2019	Age of Capital, Asset, Entity Rebalancing & Consolidation
2020 – 2029	*Age of Legacy Exits, Disruption, Innovation & Social Change*
2030 – 2039	Age of AI, Robots, Automation & Individualization

Source: CEL & Associates, Inc.

Since late 2019, the coronavirus has had devastating human, financial and economic impacts. Decades from today, history will determine whether we overreacted or did not react enough; whether the stay-at-home orders really worked or inflicted the human toll of unemployment, education disruption, depression, medical treatment delays, domestic abuse, suicide, increased use of alcohol, drugs and opioids far greater than COVID-19 deaths; whether a dramatic incursion of debt was really the correct policy; and whether the pandemic computer models relied upon were flawed. No one knows these answers today. However, **we do know that the real estate industry ushered in the 2030 transformative changes 10 years early!**

A Perfect Storm Of Transformative Events

➢ Abundance of Capital	➢ Housing Affordability Challenges	➢ Retrenchment of Debt Markets
➢ Accelerating Technological Advancements	➢ Increasing Government Regulations, Taxes & Oversight	➢ Rise of Experiential Real Estate
➢ Changing Global Economy and Borderless Marketplace	➢ Increasing Role of Big Data & The Internet of Everything	➢ Rise of the Independent Worker and the Gig Economy
➢ Demographic And Generational Shifts	➢ Industry Consolidation	➢ Rising Operating Costs, Tenant Expectations & TIs
➢ Disruption Caused by Acts of Nature, Epidemics & Pandemics	➢ Rise of Autocracy & Nationalism	➢ Robotics & Artificial Intelligence
➢ Disruptive Technologies & Focus on the Environment/Net Zero	➢ Legacy Exits, Multi-Generational Workforce Shifts & Talent Shortages	➢ Shifting Consumption Patterns
➢ Emergence of New Competitors	➢ Looming Pension Fund Crisis	➢ Shifting Household Formation
➢ Energy Shifts & Emergence of Alternative Options	➢ Mobility and Distance are Being Redefined ("Spatial Economics")	➢ Uncertain Economic Growth
➢ Geo-Centric Market Shifts & Alliances	➢ Product & Service Innovation	➢ Unprecedented Debt & Political Discord
➢ Growth of the Sharing & Collaborative Economy	➢ Redefinition of Human Capital & Work	➢ Urbanization and the Emergence of Multi-Purpose Real Estate

Source: CEL & Associates, Inc.

In this issue of *Strategic Advantage*, we highlight the dramatic shifts that have, are and are likely to be occurring over the next several months and years…plus we share valuable insights on the "reopening" of real estate companies and the probable impact of COVID-19 on 2020 compensation and bonuses. Remember, as Lyndon B. Johnson said, **"Yesterday is not ours to recover, but tomorrow is ours to win or lose."** What course of action must you, your company and your leadership team take today to assure tomorrow's success?

Major Transformative Shifts Are Underway

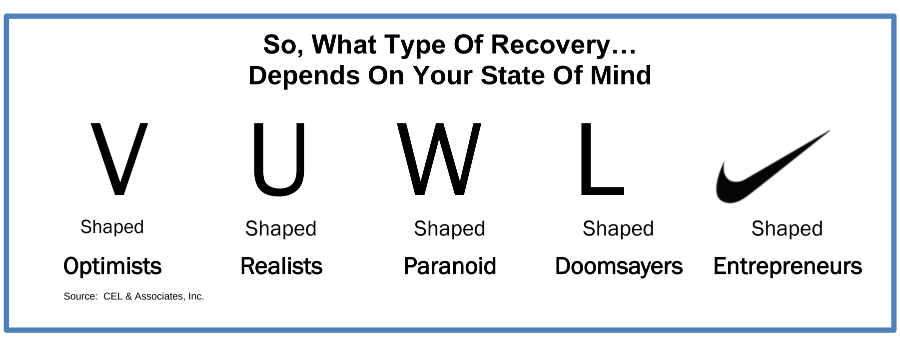
The U.S. Economy Is Rapidly Changing

Year	Activity
2017	The Digital Economy
2018	The Internet of Everything Economy
2019	The New Normal Economy
2020	The COVID-19 Repricing Economy
2021	The Figure-It-Out Economy
2022	The Transformational Economy
2023	The Generational & Demographic Economy

Source: CEL & Associates, Inc.

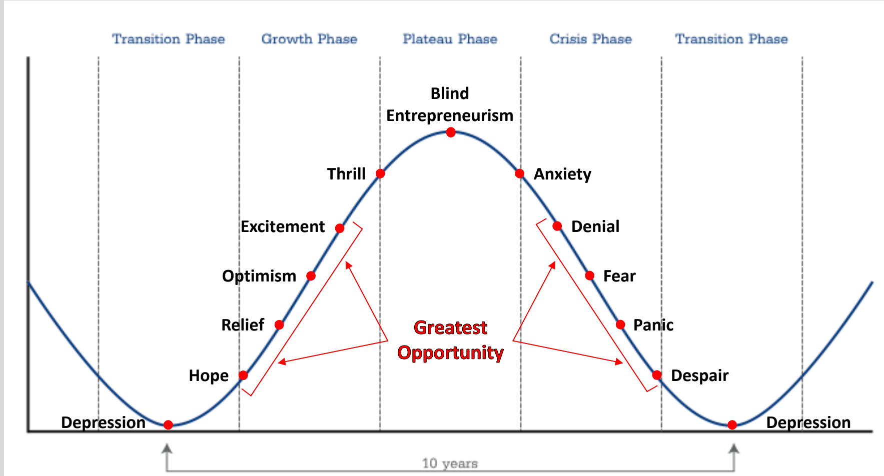
Society is being reshaped. Americans are discovering that working remotely gives one an option to "live elsewhere." States perceived as "healthy," did not enact inconsistent stay-in-place orders and considered "job and employer friendly" are **likely to see a measurable increase in relocations coming from the perceived perpetual stay-in-place states. Relocations from highly urbanized areas to more urbanized suburban locations are underway. Corporate America is reviewing the decision to have "centralized" headquarters or be located in insolvent states**. Investors are increasingly reluctant to invest in states or markets that are highly taxed, highly regulated, have a proclivity to enact "temporary" policies that seem possible to become permanent [rent control, rent abatement and moratoriums, lease cancellations, eviction freezes, etc.]. Investors are very wary of markets where a governor or a mayor can govern by fiat for any real or perceived "crises." What could be considered the next "crisis" to put further controls over residents and/or employers? **Investors, corporations and businesses are now wondering whether their city or state will offer the best opportunity to succeed**. Investors and taxpayers are increasingly concerned about states headed for "future bailouts," higher taxes and lower levels of services.

Consumers and workers, who have seen their savings and retirement accounts shrink dramatically, who may have lost their job or have been furloughed and discovered that the response to coronavirus has not been uniform or consistent in states or throughout the country, will question whether living someplace else is a better work/life balance option. The long-term impacts of COVID-19



and the policy actions taken by states with continued stay-in-place such as California, New York, Michigan, Illinois, New Jersey, Massachusetts and Pennsylvania are causing employers, workers and residents to re-think the best place to live and work. For example, more than 15,000 companies [pre COVID-19] employing over 300,000 workers have left California during the past decade. Today, California faces a $54 billion budget deficit plus…the state has $91.5 billion in unfunded liabilities and has just processed around 4 million unemployment insurance claims. Around 1.5 million people have left the state of New York since 2010, according to the U.S. Census Bureau. In 2019, New York saw its population decline by 76,000, the largest decline of any state in the U.S. New York City has $107.8 billion in unfunded liabilities. Illinois [state and local] has an unfunded pension liability of over $203 billion. New Jersey's unfunded liability tops $130 billion. **Corporate America and workers are asking why live in states which have among the highest taxes, highest budget deficits, highest unfunded liabilities. And, in the cases of New York, New Jersey, Illinois and California, these are four of the top five states with the greatest number of COVID-19 cases**. Major population shifts are underway.

Real Estate Cycles' Psychological Phases



Source: CEL & Associates, Inc.

The accelerated shift to a rental-based society is underway. Sixty percent of Millennials have "concerns" about being able to afford food, rent or pay medical expenses. The median age of a U.S. homebuyer in 1981 was 31 years. Currently, for a variety of reasons, that median age has risen to 47 years. **Sixty-nine percent of Americans have less than $1,000 in liquid savings**. The average U.S. savings account contains $16,420, while the median savings account balance is around $4,830. Over 40% of Americans have less than $10,000 saved when they retire. From apartments to iTunes,

Definition Of Work & Workers Is Shifting

- Work now follows the worker…who no longer "goes-to-work."
- Space where work is performed is now less important than the intersections of networks, interactive technology and flexible collaboration.
- Specialists, niche experts, ICs and the Age of the Freelancer are growing rapidly…there may be as many as 100m freelancers by 2030.
- The "on-demand" workforce is creating a new ecosystem of work. Digital platforms can now match talent with need. Employers are becoming connective networks of workers.
- Decision-making is far more decentralized; work-life-balance is now a top priority; and robotics, automation and AI are streamlining the workplace.
- Compensation and benefits in real estate firms are being redefined.

Source: CEL & Associates, Inc.

Work Is Being Redefined

❑ Work follows the worker, not a fixed location…focus on work/life balance.
❑ Technology, automation and robotics are eliminating the mundane.
❑ Re-tooling will become the norm…working remotely is now a norm.
❑ Assisted, augmented and autonomous intelligence is dramatically improving efficiency and productivity.
❑ Innovation will outpace regulation…wellness takes precedence.
❑ Specialists and niche entrepreneurs will flourish.
❑ Agility and speed are essential for relevance and success.
❑ The "Age of the Freelancer" is ahead (50% of U.S. workforce by 2027).
❑ The "on-demand" workforce is creating a new ecosystem of work.

Source: CEL & Associates, Inc.

from Uber to Lyft or from Lime Scooters to temporary workforce, **renting has become the new norm**. The average age of Americans getting married has increased to 29.8 years for males, and 28.8 years for females. **The U.S. birthrate is at its lowest level in 32 years**, according to the CDC. Post COVID-19, more Americans are under- or unemployed [35 – 40 million people], have less savings, have watched their 401[k] decline by nearly 20% and have seen inflation negate modest income increases. Plus…the average college debt is now $32,731.

These major transformational shifts, among others, are reshaping society, socialization, real estate investment opportunities and where people live, work, shop and play.

The Definition Of Work, Workers & Consumerism Is Shifting

Work now follows the worker. During and post COVID-19, **many workers no longer "go to work" to get their work done**. Sixty-two percent of employed workers, according to a recent Gallup survey, say they have worked from home during the coronavirus crisis. A Glassdoor survey of 1,000 workers found that 67% said they supported their employers' decision to mandate remote work indefinitely due to the COVID-19 outbreak. **Sixty percent of those respondents said they were confident that they can efficiently perform their job remotely.** According to other surveys, **approximately 66% of employees are working remotely due to COVID-19**. **By the end of 2021, it is estimated that 25% - 30% of the workforce will be working from home all or some of the time**. Microsoft's analysis of how users engage with teams revealed that remote workers are adapting to the balance between work and home-related

Consumerism Is Shifting

- 90% of consumers have changed their shopping patterns as a result of COVID-19.
- A 96% growth in online retail shopping [YOY April].
- Consumers have taken full control of the retail experience.
- 40% - 60% of consumers plan "to continue" to shop online, use curbside pickups, delivery services and online entertainment.
- Physical space is now less important than the growing convenience/ease and "order-what-I-want" online shopping provides.
- Gradual shift to a predominantly cashless society is underway.

Source: CEL & Associates, Inc.

responsibilities. Before COVID-19, according to a CEL & Associates, Inc. national survey of the real estate industry, **42.2% of private and 59.6% of public real estate firms offered telecommuting options for their employees**.

Pre COVID-19 What Millennials Want In Office Space	
Work-Life balance	Natural lighting
Flexible schedules	Use of recycled materials
Collaborative workplace	Carbon neutral
Open work stations	Re-configurable format
Small lounge areas	Functionality
Informal conference space	Storage lockers
Many places to plug-in	Scribble walls
Relaxation areas	Indoor air quality
Wellness protection	Pet friendly

81% of Millennials want to choose their own work hours!

Source: CEL & Associates, Inc.

Space for work performed is now less important than the intersections of networks, interactive technology and flexible collaboration. The on-demand workforce is creating a new eco system of work. Now digital platforms can match talent with need. COVID-19 put to bed the open-floor, creative office format as social distancing and working remotely has been embraced. **Work is being redesigned around purpose, priorities and the need to engage.** The digitization of the workplace, the growing role of robotics, automation and artificial intelligence, is reshaping how we view and perform work. According to McKinsey & Company, **technology can now automate 45% of the activities people are paid to perform**. Many tech companies [Facebook, Twitter, etc.] have made working remotely a reality forever. Facebook's CEO, Mark Zuckerberg, recently announced that up to 50% of Facebook's employees will work remotely in five to 10 years.

Consumers and consumerism have also shifted dramatically. Ninety percent of consumers have changed their shopping patterns as a result of COVID-19. Amazon now accounts for 40 percent of all U.S. gross merchandise volume. Consumers have taken full control of the retail experience. Between 40% - 60% of consumers plan "to continue" to shop online and use curbside pickup and delivery services post COVID-19. Self-serve retail and touchless grocery are rising dramatically and a gradual shift to a predominantly cashless society is underway. Consumers are reducing their discretionary spending, have increased expenditures for stockpiling and have determined that personal health and safety are more important than shopping at the mall. **Buying local, embracing digital commerce, increased awareness in conscious consumption**

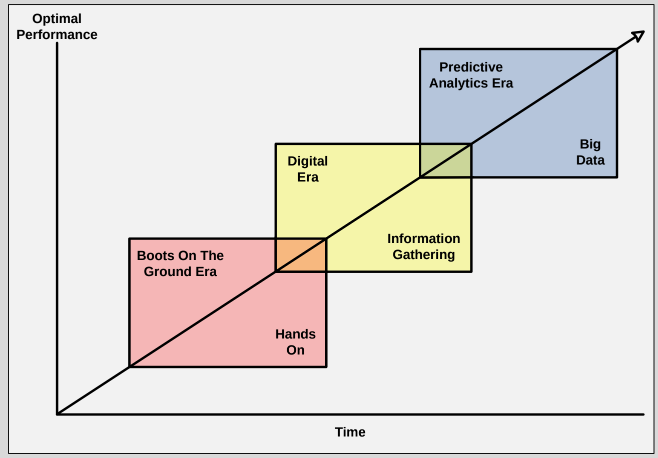
The New Silicon Valleys

Silicon Valley – Santa Clara, SF, Sunnyvale, Palo Alto, Mtn. View
Silicon Beach – Santa Monica, Culver City, Playa Del Rey
Silicon Roundabout – East London
Silicon Hills – Austin, Boulder, Denver
Silicon Forest – Seattle, Portland
Silicon Hill – Washington, D.C.
Silicon Alley – Boston to New York
Silicon Slopes – Salt Lake City and Park City, Utah
Silicon Wadi – Tel Aviv and Metro Haifa
Silicon Valley South – San Diego

Source: CEL & Associates, Inc.

and purchasing more “sustainable” products are COVID-19 shifts unlikely to revert**. According to a recent study, 42% of consumers believe the way they used to shop will fundamentally change. The top priorities for consumers post COVID-19 are “local products, trusted brands and ethical products.” Interestingly, according to an EY study, 54% of consumers would make their personal data more available if it “helped to monitor and track an infection cluster.” **Consumers, as a result of declining or lack of income, fear and worries about the future, will place more value on what is important to them, the impact of what they buy and the way in which they shop**. The rise in online media/video consumption has risen dramatically for Gen Z and the Millennials. Going back to shopping centers, malls, movie theaters and entertainment venues will be slow, unpredictable, and unclear…until and unless a COVID-19 vaccine is available.

Shift From Onsite To Online



Source: CEL & Associates, Inc.

Outlook For Office Buildings & Space

The 1970 movie, “Suppose They Gave a War and Nobody Came,” is an American drama-comedy with the plot described in the title. This question typifies similar thoughts/concerns today. **What will happen when the stay-at-home restrictions are lifted, and employees don’t return to work?** It is expected that: 40% will return to the office four to five days a week; 35% will return to the office two to three days a week; and 25% will continue to work remotely. **Nearly 60% of workers who are working remotely because of COVID-19 would prefer to do so after restrictions are lifted.** Of note…90% of real estate firms enacted working remotely policies [for corporate, offsite personnel]. Since COVID-19, office leasing is down nearly 50%, net effective rents are down around six percent, and subleasing activity has increased. Many companies are seriously considering a hub and spoke model for space utilization.

2025...What To Expect In Office Buildings

- 40% - 55% of work, formerly performed in an office building, will be done remotely.
- 70% of office space has an open floor plan…this is about to change dramatically…also watch for the introducing of revenue sharing leases.
- The digitization of office functions will increase vacancy levels, drive shorter lease terms and reduce space needs from renewing tenants.
- Tenants will increasingly implement “shift” staffing schedules and expect landlords to accommodate a 24/7 space requirement.
- Elevator capacity levels could be restricted to 50% per load.

Source: CEL & Associates, Inc.

Pre COVID-19 The Great Generational Transfer

Generation	View Of Work	View Of Work Environment	View Of Office Space	Square Feet Per Worker
Baby Boomers 74.4 million (1946 – 1964)	"About to retire…not about to change."	"I want the trappings of success."	Dedicated office with title-based amenities.	350 Square Feet
Gen Xers 65.8 million (1965 – 1980)	"Flexible hours for more personal TO."	"I want more money, portable skills and to work on my own."	Cube space with external amenities.	250 Square Feet
Millennials 75.9 million (1981 – 1997)	"Meaningful hours…no schedule."	"I want teamwork, personal growth and opportunities."	Collaborative space with internal amenities.	<150 Square Feet
Generation Z 77.9 million (1998 –)	"Productive hours on my terms."	"I want it my way, when I need it."	Digital / remote space with 24/7 mobile connectivity.	<100 Square Feet

Source: CEL & Associates, Inc.

The new normal for office buildings will include: personal temperature screening; monitoring the quality of indoor air; deployment of UV technology; adoption of touchless activations in all public space; queuing lines for elevators, mail rooms and common areas; and deploying sanitizing stations throughout the building. **Tenants will embrace shift hours, workforce contracts, employment of more gig workers and a complete redo of the open floorplan office design.** Look for the adoption of new, smart technologies and use of video conferencing. Culture, Human Resource or Talent Officers will be mandated to create/maintain a culture amid a diverse, combination remote and onsite and demographically diverse workforce…not an easy assignment! Working in a corporate office may become a status symbol. Travel for business will be far below historical norms. Do not be surprised to see far fewer shared offices and workstations. Virtual events and team meetings will increasingly be done remotely. **It would not be surprising over the next decade to see the number of square feet per employee decline by 50% as space becomes far less important than "connecting, interacting, networking and communicating."**

I expect 40% - 50% of work done in an office building will be done remotely. Elevator capacity will be restricted to 50% per load. Many tenants will adopt staggered shift staffing and expect landlords to provide 24/7 services and amenities. **Watch for some landlords to offer revenue sharing leases to tenants with less consistent income**. Some landlords could even take "stock" in select startup tenants as a tradeoff for lower rent in great locations. **Multi-location strategies by larger regional or national tenants will become more commonplace. Dual-hub solutions [i.e., a suburban and a CBD location] may become a "talent" solution for some tenants**. Health scans, more robust common area cleaning and the addition of “amenity enhancements” to encourage workers to return to work will emerge over the next five years. As office tenants accelerate their digitization and responses to COVID-19, office landlords and onsite office Property Management teams will need to “keep pace” or risking losing tenants over real and perceived health, safety and operating deficiencies.

2025...What To Expect In Industrial Buildings

- Expect a dramatic increase in demand by local, regional, state and federal agencies for buildings to house “life-critical” medical, food supplies and emergency services.
- Watch for an increase in the need for new manufacturing facilities to accommodate an acceleration in “Bring It Home” production for critical industries [e.g., pharmaceuticals, medical devices, precision manufacturing, etc.].
- Watch for increased demand for last-mile distribution centers.
- New industrial building designs will incorporate greater use of robots, cobots, automation, AI and green technologies.
- Watch for mandates for the creation of “National Logistics Policy” and processes to address future supply crises.
- Landlords will be expected to incorporate the latest in air ventilation systems, antimicrobial technologies, motion detectors and wearables for “common area” touch points.

Source: CEL & Associates, Inc.

Outlook For Industrial Buildings & Space

Of all asset classes, the industrial real estate sector has been the recipient of the dramatic increase in manufacturing, last-mile warehouse and unprecedented demand for food, healthcare and “living essentials” during and post COVID-19. The coronavirus pandemic has provided **impetus for many cities, counties, states and healthcare systems to build and/or lease space for “life-critical” medical supplies, equipment, food, emergency supplies and pharmaceuticals**. The conflicts in China have increased the demand for and the incentives to execute **“Bring It Home” production for critical industries**. Grocery stores have been overwhelmed during COVID-19, playing catch-up while attempting to safely provide much needed staples to the consumer. The dramatic increase in Internet shopping [up 80% for traditional chain stores, up 142% for pharmacy purchases, and grocery Internet sales up 70% - 75% YOY] has increased demand for last-mile distribution and regional warehouse facilities.

Industrial real estate owners and operators will be expected to incorporate the latest air ventilation systems, antimicrobial technologies, hands-free motion detectors, “health wearables” and increased sanitation of common areas. **COVID-19, however, has raised**

History Of Prop Tech

❖ Early PropTech 1980 - 2000		
▪ CoStar ▪ Argus ▪ Real Page	▪ Yardi ▪ Autodesk ▪ Real Capital Markets	▪ Axiometrics ▪ Real Capital Analytics
❖ Aggregators 2001 - 2007		
▪ Zillow ▪ Trulia	▪ RedFin ▪ ProCore	▪ Trivago ▪ Appfolio
❖ Bigger Is Better 2008 – 2019		
▪ WeWork ▪ Airbnb ▪ SquareFoot	▪ Katerra ▪ Open Door ▪ Casper	▪ Auction.com ▪ Urban Door ▪ Niido
❖ Quality & Capabilities Matter 2020 - 2030		
▪ Automated Warehouses? ▪ Robotic Construction? ▪ Modularity? ▪ Material Services? ▪ Energy Windows? ▪ Tenant/Resident Experience?	▪ NextGen Windows? ▪ Smart Walls? ▪ AI-Based Brokerage? ▪ Space Customization? ▪ Hologram Brokerage? ▪ Automated Prospecting?	

Source: CEL & Associates, Inc.

the awareness of, the potential need for and the likely integration of robotics, artificial intelligence, automation and green technologies into the workplace [i.e., robots and automation can work 24/7, don't get sick and can easily accommodate a 24/7 work day and week]. Globally, there are around 3.2 million industrial robots…double the number in 2015. The dramatic increase in online shopping [as of April 22, 2020, online U.S. and Canadian retail orders were up 146%] has increased the need for more automated and robot-based warehouse and distribution facilities to meet the unprecedented demand. COVID-19 has accelerated what was already underway…a move from physical store to online shopping. Cloud kitchens, drone deliveries emanating from industrial real estate "launch pads" and the supply chain disruption will increase demand for temperature-controlled facilities near major population centers. **Automated cold storage facilities will increase the demand for smaller footprint buildings in infill locations. Remember, around 95% of food produced or imported to the U.S. goes through a distribution facility before it is available to the consumer.**

In addition, watch for the emergence of a **"National Logistics Policy"** over the next few years that addresses the supply and proximity shortfalls experienced during COVID-19. Governmental agencies, the U.S. military, healthcare providers and systems, and emergency agencies probably will increase their need for warehouse space closer to consumers. **In the not-too-distant future, we will see a dramatic increase in mid- to high-rise, high-tech, automated warehouse, distribution and processing centers.** The challenge for industrial tenants is finding and retaining qualified workforce and eliminating human error in the fulfillment process. Post COVID-19, automation and robotics can fill that need, so the design, operating systems and tracking order cycle times in the New Normal industrial buildings must accommodate shifting stakeholder expectations and new technologies.

Outlook For Retail Buildings & Space

No asset class has been more negatively impacted by the coronavirus than the retail sector. Already reeling and reacting to a dramatic rise in online sales before COVID-19, the retail sector was further impacted by stay-at-home, shelter-in-place and social distancing edicts from state governors and regional officials, and social unrest. **CEL & Associates, Inc. expects 20% - 25% of all retail stores to close over the next 36 months… and could be up to 200,000 retail establishments!** Department stores are in "crisis," and many favorite restaurants and long-time local dining facilities are on life support.

2025...What To Expect In Retail Centers

- 20% - 25% reduction in the per capita of retail SF to population [currently 23.5 SF]. Expect a tsunami of retailer bankruptcies.
- The repurposing of up to 50% of retail space will occur over the next decade.
- Reconfiguration/design of ingress and egress to accommodate curbside pick-up, drive-up windows and delivery services.
- Addition of infrared sensors to identify/isolate high temperature or flu symptomatic visitors.
- Significant upgrades to cleaning/sanitizing process for escalators, elevators, restrooms, and rest areas.
- Increase in leases to community, government, public health and social services…"closer to our community."

Source: CEL & Associates, Inc.

Pre COVID-19 Generational Shifts In Retail Shopping

View Of…	Baby Boomers	Xers	Millennials
Retailers	Trust the brand.	Trust the connectivity.	Trust the experience.
Groceries	Food as a necessity.	Food as a connector.	Food as a nutrient.
Frequency Of Shopping	Structured and consistent.	Based on time availability.	As needed…24/7.
Retail Motivation	Advertisements.	Ratings.	Word-of-mouth/Twitter.
Shopping	One stop.	Digital retailing.	Unlimited stops.
Physical Plant	Mega centers.	Smaller stores.	Omni-channel.
Restaurants	Place to eat.	Place to socialize.	Place to connect.
Stores	Place to see products.	Place to interact with products.	Place to experience products.
Display Space	Floor space.	Display space.	Mental space.

"Technology and disruption have changed the definition, purpose and design of retail real estate."

"When online sales reach 15% – 20%, the current retail model begins to fail."

Source: CEL & Associates, Inc.

Reduced consumer expenditures have hit hard [March down 7.5%, April down 16.4%]. However, May's 17.7% rise and the projected $240 billion in lost sales projected for 2020 highlights a long way to go for recovery. According to JP Morgan, U.S. credit card users spent 40% less YOY in March. **Durable goods sales are expected to remain far below historical levels for at least 24 months. Getting nearly 40 million unemployed Americans back to work will take years, not months…and many currently out of work may remain that way for years. CEL & Associates, Inc. expects a repurposing of up to 50% of retail space will occur during the next decade**.

Existing retail centers will require significant reconfiguration/design of entrance and exit to accommodate ongoing and growing demand for curbside pickup, drive-up windows, and delivery services. The addition of infrared sensors to identify/isolate potential sick visitors, participating in contact tracing platforms, and the use of antimicrobial technologies will be on the priority list of every retail real estate owner and operator. Rent forgiveness, lender forbearance negotiations, workouts, bankruptcies, and prolonged vacancy will face many retail real estate owners.

There is some good news. Owners of retail assets in great locations, with grocery or healthcare anchors, drug stores, pharmaceutical tenants, discount retail, convenience and fast food tenants and who can offer curbside pickup will do well. While the shape and timing of the recovery for the retail sector will vary across regions, **retailers who can digitize the customer engagement and retail real estate owners and operators who can incentivize such behaviors will recover and grow quickly, post COVID-19.**

One of the biggest challenges and, frankly, opportunities for retail real estate owners and operators is to shift from an asset-centric to a more customer-centric business model and operating platform. Focusing on the customer [not just the tenant] experience, creating reasons to visit [shop] and stay, and facilitating a seamless shopping event will be key over the next 36 months. Post COVID-19, those who use predictive analytics, more fully understand the consumer [existing and potential], offer more than space and tenants, and who value the lifestyle shopping experience will far outperform their competitors.

Outlook For Multifamily Buildings & Space

There are three basic facts of life: people need to eat; people need medical treatment in an emergency; and people need to have someplace to call home, with a roof overhead. Rental housing, other than campgrounds, living in an RV, a manufactured home, or makeshift shelter, meets the most fundamental need for everyone.

Whether you live in a student housing facility, tax credit apartment, workforce housing, market rate apartment or senior living facility, you are renting. Some have argued that paying a mortgage is just a more sophisticated form of rent. While COVID-19 had significant impacts on new development and under-development projects, pending sales, raising equity or securing financing, that pause did not negate the increasing demand for rental housing. **The multifamily industry is held back only by the lack of jobs, a recovering economic marketplace, and a psychological mindset**. Even in this unprecedented pandemic crisis, NMHC's Rent Payment Tracker found 89.0% of apartment households made full or partial payment by June 13. Americans are prioritizing rent, food and healthcare during COVID-19, and the 43 million renter households are likely to increase as we approach year end. While many investors and lenders have hit the "pause" button, unlike office or retail where the "stop" button dominated, the agencies [Freddie, Fannie and FHA] were designed to accommodate the need for housing.

Moving to the suburbs and away from the highly urbanized CBDs [which tend to have the highest levels of coronavirus] is now a growing priority for many, just as working remotely is now a proven, viable option for many. While rent growth will be near or below zero for 2020, apartment owners and operators in many markets [excluding those in high tourism areas] are well positioned to "weather the

2025...What To Expect In Multifamily Communities

- Online drone and virtual and self-guided tours.
- Enhanced cleaning and sanitation of common areas, fitness center, mail room, game areas and furniture…plus onsite "wellness" testing.
- Dramatic increase in sensors, voice assistants, "smart walls," online communications/connectivity, in-unit workstations and business services features.
- Revised designs for greater inclusion of delivery services, drop-off zones and service providers.
- Creation of onsite "emergency" equipment, medical devices, first responder needs and a stockpile of health services resources.
- Quarterly "Health Certification" for onsite personnel and common areas.

Source: CEL & Associates, Inc.

economic downturn" and predicted recession. The biggest concern within the multifamily industry is not the moment-in-time crisis created by COVID-19…it is the political/policy decisions by some state and local officials that mandate no evictions, no rent increases and added "health/safety" requirements. **The expressed concern of many within the apartment industry is not that these temporary measures are unnecessary, but that temporary measures can become permanent policies**.

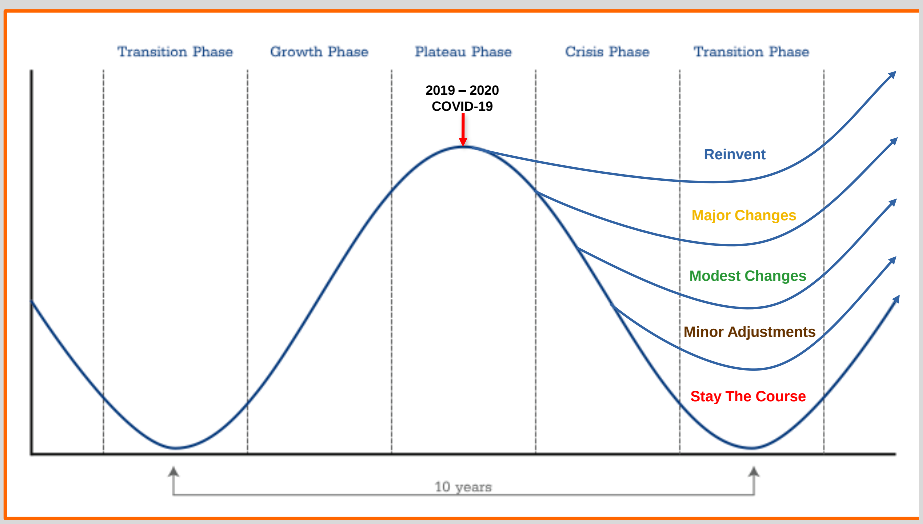
Over the next few years, multifamily owners/operators must continue to provide virtual and drone tours, online leasing, self-guided leasing tours, regulated common area usage, enhanced sanitation processes and temperature checks on all residents and visitors entering or using the office, fitness center or common areas. The increasing number of residents "working from home" mandates new unit, business center designs and technology upgrades.

Outlook For Real Estate Operations

Real estate leaders must learn from yesterday, remember the lessons of today and seek to harvest the opportunities of tomorrow. You cannot re-live the past and today will soon be a memory, so tomorrow is what you anticipate. The challenging, and at times painful, experiences of "living through COVID-19" have inspired many real estate principals, CEOs, Boards of Directors, senior leaders and entrepreneurs to rethink and make strategic decisions on the best operating platform and best business practices, post COVID-19.

Investment sales revenues could be down as much as 35% - 45% in 2020. Property management revenues will likely be down 15% - 25%. Construction fees could be down 20% - 30% and leasing activity may be down as much as 18% - 30%.

Real Estate Companies' Strategic Choices



Source: CEL & Associates, Inc.

Obviously, these projections are subject to the "great unknown" regarding lifting COVID-19 stay-at-home policies, emergence of a vaccine and/or recurrence of COVID-19 cases due to "opening up too quickly" and the risk of another wave in late 2020/early 2021.

COVID-19 Compensation Policy Actions Within Real Estate Firms

The table below highlights the dramatic shifts in compensation policies and practices within real estate organizations nationwide.

Category	Topic	Action	Range of RE Companies Adopting	Comments
Hiring	New Corporate Employees	Hiring Freeze	75% to 85%	Likely through 2020 except for Mission Critical positions.
	Re-Opening Needs	For Additional Property Operation Changes	60% to 70%	Additional Maintenance, Cleaning, Security Staff will be needed for post re-open Ops.
	Executive Recruitment	Active Search Freeze / Delay	80% to 90%	Some firms may view this period as an opportunity to recruit top talent.
Work From Home	Sustain Ongoing Ops During Lockdown/ Quarantine	Maximize EE's able to Work Remotely	90% to 100%	Significant Long-Term change in office operations, company culture, space needs – and investment in workplace technology.
Layoffs	Reduce Operating Costs	Staff Reductions or Furloughs	70% to 80%	Early on: Corporate staff (HR, IT, Mkt., Recruiting, Training). With Time: – Accounting, Finance, Development and Acquisition. Corporate Property Ops and Field Staff far less impacted.
		Range of Total Company EE's	10% to 15%	
Severance	For Tenured EE's – not if Furloughed	1 to 4 Weeks' Pay – or per a Company standing policy	80% to 90%	Paid at termination. Some firms are giving 1-2 weeks' severance per years of service.
Salary	Changes to Salary Policy and Immediate Actions Taken	Freezes at 2020 Levels	90% to 95%	2020 Salary adjustments likely when market clarity is known.
		Reductions	10% to 15%	Goal to avoid blanket salary reduction policy – instead, cost reduction from position reductions.
		Adjustments For 2020	30% to 40%	Firms where 2020 Salary adjustments had not been made by end 1Q – from delay or normal timing – some have delayed (on Hold) adjustment further (20% of companies).
		Budgets – For 2021	70% to 80%	Still early but CPI will likely be less than 0.5% for 2020. Most are expecting adjustments for high performers and special circumstances (100 to 150 basis point reductions to expectations).
Bonus	Changes to Bonus Policy and Immediate Actions Required due to Timing, Expense and Anticipated Performance	2019 Bonus Paid in 1Q 2020	100%	Was paid as expected under normal circumstances and timing.
		2019 Bonuses not yet Paid as of Early 2Q (April)	25% to 35%	2019 Bonus paid post 1Q 2020 – 50% paid … and 50% Deferred to 3Q/4Q 2020.
		Bonus for 2020 Changes in Policy	70% to 80%	Not clear yet for most – anticipate significant reduction from 2019 or no Bonus.
		Bonus for 2020 – Declared as off the Table	10% to 20%	Action taken - Declared already No Bonus.
		Extra Bonus for Field Ops. Taking Extra Risk	70% to 85%	Higher Bonus realization in 2020 and potentially additional Spot Bonus for "extra risk" (generally 2% to 5% of Salary).
		Restatement of 2020 Performance Criteria	100%	Assumptions and estimates of performance for 2020 are now emerging and in constant flux – but are well below 2019 quantitative performance goals.
		Target Bonus – Reductions for 2020	0% to 5%	As in 2009, little movement in target Bonus % (only in realization).
		Plan B for C-Suite and Higher Executives	30% to 40%	Consideration of greater (or 100%) Discretionary evaluation for 2020 (Private) – Private Co. Bonus Plans are wide-ranging in Performance Metrics and Discretions – and those with defined 2020 metrics may be inclined to create a Plan B.

The Restructuring Of Real Estate Organizations

- Shift to greater delegation of decision-making and a shift to a more decentralized, agile and empowered organizational and sustainable governance structures.
- Accelerated embracing of new communication, remote working, reporting and compliance technologies.
- A dramatic rise in legacy exits, entity sales and generational transitions [the "I-don't-want-to-go-through-this-again syndrome].
- Dramatic increase in resources dedicated to proprietary research, predictive analytics and utilization of Big Data.
- Greater emphasis on Talent Management and getting the right people in the right positions at the right time [remotely and in-person].

Source: CEL & Associates, Inc.

Clearly there will be winners and losers; those who capture the future and those waiting for the future to come to them; and those whose leverage and/or business model is based on an endless repeat of yesterday. **It is clear, post COVID-19, that real estate companies will have [1] put in place a sustained governance structure; [2] developed a long-term vision and key strategies** that reflect the transformative changes that are reshaping the real estate industry; [3] implemented a tiered and diverse staffing model that incorporates working remotely, automation, outsourcing and AI; and [4] adopted a new and post COVID-19 compensation plan to attract, retain and motivate talent.

Titles, branding, organizational architecture, onsite operating policies and procedures, leasing, construction, and property management processes are being turned upside down. **What once was true is no longer applicable today. What was dependable is now debatable**. The combination of COVID-19, the significant transformative shifts which were already occurring, and technology advancements have made any 2019 – 2020 operating platform obsolete. **Watch for a 10% - 15% reduction in permanent workforce positions.**

The New Business Model

Current Model		Future Model
Dominated By Personalities	→	Dominated By Knowledge
Staffed By Employees	→	Comprised Of Collaborative Diverse Talent
Hierarchical Structure/Silos	→	Virtual Integration & Teams
Geo-Centric	→	Knowledge-Centric
Driven By Process	→	Driven By Creators Of Value
Governed By Organizational Charts	→	Consisting Of Networks & Alliances
Market Share	→	Customer Share
Based On Contracts	→	Based On Relationships & Connectivity
On-Time Fulfillment	→	Real-Time Fulfillment
Commodity-Driven Customers	→	Value-Driven Outcomes
Service By Policy	→	Service By Intuitive Behavior
Focus On Service	→	Focus On Valued, Recurring Experiences

Source: CEL & Associates, Inc.

In 2020, pay raises, 401[k] matching contributions and performance bonuses are either "on hold," "significantly reduced" or "totally eliminated" within many real estate firms.

Real Estate Sector Recovery Time

The table below highlights the likely recovery time for each real estate sector.

Sector	Sub-Sector	Recovery Timing 3Q 2020	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q 2021	1H 2022	2H 2022+
Office	CBD								
	Suburban								
	Corporate/BTS								
Industrial	Manufacturing								
	Warehouse / Logistics								
	Flex								
Retail	Malls – Open Air								
	Malls – Enclosed								
	Grocery Anchored – Shopping Ctrs.								
	Community Centers. – Non-Anchored								
	Strip Centers								
	Free Standing Entertainment								
	Big Box								
	Outlet Malls								
	NNN Retail								
	Lifestyle Centers								
Multifamily	Market Rate – Low Rise								
	Market Rate – Mid Rise								
	Market Rate – High Rise								
	Affordable / Workforce								
	Tax Credit								
	Senior Housing								
	Age Restricted								
	Student								

Stage 1 – During Crisis: substantial operating risk, significant operating shortfalls and risk.
Stage 2 – Reopening: niche investment opportunities, manageable risk.
Stage 3 – During Recovery: growth opportunities and New Normal strategic imperatives.

CEL & Associates, Inc.

Special bonuses are increasingly being given to onsite personnel ["First Responders"] in recognition of their special efforts and dedication during the pandemic. Use of online technologies for previously "in-person" activities is accelerating. The rewriting of social distancing and overall hygiene courtesies is underway. The rethinking of common areas, mail rooms, entryways and elevator usage is [or has been in many cases] replaced with post COVID-19 preventive practices.

Succession planning for key leaders has now become a priority as the reality or threat of the loss of one or more senior executives [or the Founder/CEO, for that matter] was heightened because of COVID-19. Formation of Advisory or Formal Boards of Directors has been accelerated. Locking in HIPOs and next-generation stars is now a strategic imperative. Shedding non-core functions, assets and/or initiatives is underway. Reviewing and reaffirming Purpose, Vision and Goals is now a 3Q/4Q priority.

While the transformative impacts of COVID-19 have and are having a significant impact on real estate operators, the opportunity to do different things, not do things differently could never be greater.

The table below highlights the post COVID-19 shifts now underway.

Real Estate Operational Shifts Post COVID-19

Service / Function	Required To Provide In-Person	Ability To Provide Remotely	Ability To Automate
Accounting	Low	Medium	High
Acquisitions	High	Low	Medium
Appraisal	Low	Medium	High
Asset Management	Medium	High	Medium
Construction - CM	Medium	Medium	Low
Construction - Onsite	High	Low	Low
Development Management	High	Medium	Low
Finance	Low	High	High
Human Resources	Medium	Medium	Medium
Investment Sales	Medium	Medium	Medium
IT / Technology	Low	High	Medium
Leasing	Medium	Medium	Medium
Legal	Low	High	Medium
Maintenance	High	Medium	Medium
Marketing	Medium	High	Medium
Project Management	High	Medium	Low
Property Management - Commercial	High	Medium	Low
Property Management - Residential	High	Medium	Low
Security	High	High	Medium

Source: CEL & Associates, Inc.

Closing Comments

So…what will the New Normal look like? That answer is still unfolding. However, what is very clear is that the New Normal will be anything but normal. There will be no return to yesterday's normal. It is always important to remember that during times of disruption, uncertainty and challenge, those who can reinvent themselves and move forward will capture the plethora of opportunities…now and in the future. As the well-known baseball icon Yogi Berra said, "…the future ain't what it used to be." How true. Are you up to the challenge and incredible opportunities?

Regards,

Christopher Lee
Editor

Note: *This report has been prepared by CEL & Associates, Inc., who retains all rights to its content. This report may not be reproduced, distributed, and/or used in presentations or offering/fund raising prospectus/memorandums, and/or used in communications, speeches and/or presentations in its entirety or in parts without the prior written consent of CEL & Associates, Inc. You may reproduce/distribute and/or share this article with friends, colleagues and associates. Opinions and forecasts contained in this, prior and future articles may change without notice. The author encourages readers to offer comments, feedback and recommendations for further enhancement to newsletter@celassociates.com*

SPREAD THE WORD

If you enjoy reading ***Strategic Advantage*** and ***Leadership Conversation***, and have benefited or received value from our insights and recommendations over the past 25 years, perhaps your friends, business associates, other members of your team or industry peers will also enjoy it.

You can provide them with an individual subscription by several options:

- Click here: **http://newsletter.celassociates.com** and fill in their contact info or forward this link to them
- If for multiple people, send us an email with a list of their individual contact info and email address

Today there are over 12,000 readers of Strategic Advantage…spread the word.

Give Us Your Opinion: We want to hear from you and to have future issues reflect your needs and questions. Please email your comments, ideas, suggestions and insights to newsletter@celassociates.com.

For More Information: For more information regarding our services (Strategic Planning, Compensation, Opinion Surveys, Benchmarking, Performance Improvement, Succession Planning and Governance/Management), please email us at newsletter@celassociates.com or call 310.571.3113.

To Subscribe: To subscribe to CEL & Associates, Inc. and Christopher Lee's *Strategic Advantage* newsletter with ongoing insights, opinions and forecasts regarding issues, trends and opportunities within the real estate industry, please email us at newsletter@celassociates.com with *"Subscribe"* in the Subject line and provide your full contact information.

***To Change Your Contact Information*:** Please email us at newsletter@celassociates.com with *"Change Contact Information"* in the Subject line and include your new contact information.

Prior Newsletters: If you would like to download prior newsletters, please go to the following links.

2020…The Year That Changed Everything!

http://www.celassociates.com/onlinenewsletter/2020-year-that-changed-everything-sa-k040320.pdf

2020 Leadership Imperatives

http://www.celassociates.com/onlinenewsletter/2020-leadership-imperatives-sa-k011020.pdf

Future Proofing Your Company

http://www.celassociates.com/onlinenewsletter/future-proofing-your-company-sa-k101719.pdf

Mandatory Summer Reading For Every Real Estate Leader

http://www.celassociates.com/onlinenewsletter/mandatory-reading-for-real-estate-leaders-sa-k072319.pdf

A 2025 Day In The Life

http://www.celassociates.com/onlinenewsletter/a-day-in-the-life-sa-k102118.pdf

Seven Strategies That Will Definitely Move The Needle

http://www.celassociates.com/onlinenewsletter/strategies-to-move-the-needle-sa-k061018.pdf

What Is Going On?

http://www.celassociates.com/onlinenewsletter/what-is-going-on-sa-k041118.pdf

Work Is Being Redefined & The Impact On The Real Estate Industry Will Be Transformative

http://www.celassociates.com/onlinenewsletter/work-is-being-redefined-sa-k011718.pdf

Are Today's Real Estate Business Valuation Models Outdated?

http://www.celassociates.com/onlinenewsletter/re-business-valuation-models-sa-k092417.pdf

What Keeps You Up At Night?

http://www.celassociates.com/onlinenewsletter/what-keeps-you-up-sa-k073017.pdf

Get Ready For Transformative Change!

http://www.celassociates.com/onlinenewsletter/transformative-change-sa-k050117.pdf

The Six Disruptors Transforming The Real Estate Industry

http://www.celassociates.com/onlinenewsletter/DistruptorsTransformingREIndustry-SA-K012917.pdf

The Real Estate Industry In 2025 100 Bankable Predictions You Need To Know Part III

http://www.celassociates.com/onlinenewsletter/BankablePredictions-PartIII-SA-K031416.pdf

The Real Estate Industry In 2025 100 Bankable Predictions You Need To Know Part II

http://www.celassociates.com/onlinenewsletter/BankablePredictions-PartII-SA-K022916.pdf

The Real Estate Industry In 2025 100 Bankable Predictions You Need To Know Part I

http://www.celassociates.com/onlinenewsletter/BankablePredictions-PartI-SA-K021416.pdf

Millennials Will Have A Dramatic Impact On Real Estate!

http://www.celassociates.com/onlinenewsletter/MillennialsImpactOnRealEstate-SA-K091215.pdf

The 6 Ps For Success

http://www.celassociates.com/onlinenewsletter/The6PsForSuccess-SA-K042615.pdf

It's All About Jobs

http://www.celassociates.com/onlinenewsletter/ItIsAllAboutJobs-SA-K111214.pdf

The Future Of Retail Real Estate…A Tsunami Of Change Is Underway

http://www.celassociates.com/onlinenewsletter/FutureOfRetail-SA-K051914.pdf

Succession Planning Must Begin…Now!

http://www.celassociates.com/onlinenewsletter/SuccessionPlanning-SA-K041114.pdf

The Future Of The Office Sector

http://www.celassociates.com/onlinenewsletter/TheFutureOfTheOfficeSector-SA-K062013.pdf