Andrews Myers

Commercial Real Estate and "The New Normal" in 2021

To say that the Coronavirus pandemic has affected the commercial real estate market over the past year is an understatement. In March 2020, the battle cry heard round the world was "slow the spread," and people quickly shifted from a life of collaborative office workspaces, happy hours, and Sunday brunch, to zoom meetings and dinners at home. Office buildings and retail centers quickly felt the impact of such a shift as demand plummeted almost overnight. However, as we move further into 2021, the trademark fear and isolation of 2020 has begun shifting to an atmosphere of hope and optimism. In Texas specifically, vaccine availability continues to increase at rapid rates, allowing individuals to resume working, shopping, and dining in traditional public venues. While nobody is certain what this "new normal" will entail, there are certain trends painting an optimistic outlook for commercial real estate in 2021.

The American Rescue Plan Act of 2021 bringing relief to the real estate sector
President Joe Biden signed the American Rescue Plan Act of 2021 into law earlier this month. This Covid-19 relief bill expands federal assistance to renters, restaurants, and business owners, among others. Specifically, the Act allocates funding to various housing programs, including emergency rental assistance. In addition, the Paycheck Protection Program received $7.25 billion to continue helping to keep workers employed during the pandemic. Through the Restaurant Revitalization Fund, restaurants may receive grants of up to $10 million from the Small Business Administration. Additional long-term, low-interest loans are also now available to small business owners across the country.

Although landlords, who continue to be adversely impacted by tenants' inabilities to pay rent, will not receive aid from the new Act directly, this increase in government assistance may eventually provide much needed relief when coupled with the increased sales associated with Texas businesses reopening to 100% capacity. As businesses receive government aid, and patrons flock to reopened bars, restaurants, and stores, property owners of mixed-use properties should see a decrease in tenants unable to meet rent obligations.

Texas' Reopening continues to spur boom in retail shopping and restaurant sales
On March 10th, Governor Greg Abbott lifted Texas' mask mandate and permitted Texas businesses to reopen to 100% capacity. While many remain hesitant to indulge in in-person dining and gathering without masks, the past few weeks have shown that plenty of Texans are eager to return to in-person experiences. Days after fully reopening, mixed use shopping centers across Texas saw massive surges in visitors when compared to previous years. Eight malls across Texas, including the Houston Galleria, experienced a collective average traffic rise of 44.9% when compared to the same period a year prior.

This surge in visitors suggests that shoppers are eager to enjoy the novelty of in-person shopping experiences once again. Such buzz can only benefit Texas' business owners, and their landlords, as revenues are sure to surge as well.

While currently looking promising, recovery will vary depending on the specific market
Many businesses are expanding their capacity and resuming full operations, while other industries began taking a crucial look at their real estate needs going forward. Over the past year, many companies have come to the realization that a large number of their employees can perform their job outside of the traditional office environment. In fact, America's work culture has shown a shift in sentiment as many workers have grown attached to the flexibility provided through working from home. Some industries, however, are immune to the work from home trend. Industries such as healthcare and manufacturing, for instance, cannot be performed individually in one's home. These businesses have maintained the same real estate needs throughout the course of the pandemic. In many instances, these demands have actually increased as more manufacturing and warehouse facilities are needed to meet the exponential increase in online shopping. Investors should not fret that commercial real estate is in trouble, rather the market itself is shifting to reflect current demands. While demands for office space may no longer be increasing at pre-pandemic rates, the trade, transportation and utility sectors in Texas are growing at a rate of 2.39% annually. The need for these facilities will therefore likely increase over the course of the next year.

We are not out of the woods when it comes to the impacts of Covid-19. However, with recent advancements in vaccine availability and a growing optimism amongst consumers, the "new normal" may just show growth in ways we didn't initially expect.

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