THE

WeeklyTAKE

MARKET UPDATES

COVID-19 Impacts on U.S. Commercial Real Estate
September 25, 2020

ECONOMY

HEADWINDS POINT TO SLOWER ECONOMIC GROWTH IN Q4

A considerable bounce back in GDP growth will occur in Q3, likely between 25% and 35% annualized. CBRE's estimate is for 29.6% growth. However, it appears that the pace of economic recovery will slow in Q4, mainly due to Congress not passing a second-round stimulus bill.

Retail sales and consumer spending have driven the recovery so far, but the loss of generous unemployment benefits means that spending will be scaled back. Multifamily rent collections, which have surprised on the upside during the crisis, also likely will falter in Q4 due to the reduction in government support for low-income groups. It also is becoming clear that even if a COVID-19 vaccine is approved in Q4, it will not be widely available until Q1. Other headwinds include the COVID flare-up in Europe, which will soften global economic activity.

The recovery will not be derailed, and the possibility of strong growth in 2021 is high. More stimulus and a vaccine in Q1, as well as greater political certainty, offer potential upside. Q4 2020, however, will be a slog.

SPOTLIGHT ON LABOR ANALYTICS

NAVIGATING THE COVID-19 ERA

Many companies are taking stock of their existing real estate portfolio in the COVID-19 era for opportunities to reduce costs, align talent needs and plan the future scale and skillsets they need.

With labor costs comprising nearly 80% of most office operating expenses and upwards of 60% for most industrial operations, the need for corporate real estate, HR and operations departments to sharpen their competitive advantage through labor-driven location strategies is more important than ever. Identifying markets where their companies can become a preferred employer at reduced costs with sustainable access to quality and innovative talent is a key approach to navigating these uncertain times.

The pandemic's impact on labor markets, corporate growth patterns and location considerations varies across industries. Over the past six months, growth surges in tech and logistics accelerated the already exceptionally high demand for distribution facility labor and specialized tech skills. Meanwhile, the manufacturing and financial services sectors continue to evaluate how the pandemic has affected demand for their services and are identifying opportunities for cost containment and location diversification.

For more on the dynamic challenges to business continuity, location diversification, health and technology infrastructures, please see CBRE Labor Analytics' detailed analysis on Evolving Location Strategies in the Era of COVID-19.

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