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The Post COVID Economy – What's Next?

Vaccines are now readily available in the United States. The federal government has pumped enough stimulus to prop up the economy in what many feel is adding fuel to a roaring fire. Yet there are considerable factions standing in the way of a return to normal that are worthy of discussion. What is standing in the way of this "return to normal?"

Eviction Moratoriums and Eviction Tsunami

In an effort to help the unemployed or those experiencing other COVID related financial difficulties during the pandemic, government issued an eviction moratorium for nonpayment of rent to residential renters if they could prove hardship due to COVID 19. This means that evictions could not be pursued for not paying rent, although other lease violations remained actionable causes for eviction. This moratorium has been extended multiple times and currently is scheduled to end June 30 ,2021. Nation-wide, billions of dollars of rent are past due, and landlords will be able to file for eviction. Is it likely that July 1 will see a huge influx of cash to ailing landlords to help pay the mortgage, utilities and salaries that are required to run an apartment complex? Expect the courts to be backlogged with evictions that will go unresolved as tenants flee to the next housing development, leaving trashed out apartments, uncollected rents and legal costs.

The Unemployed

The current unemployment rate is 6.1% and had reached a low of 3.9% pre-pandemic. Many economists believe this level is close to full employment and that "structural unemployment" occurs around 4.0% - meaning that unemployment can technically never go below 4.0%, because people will always be "in between jobs." The impact of the pandemic hit restaurant workers and other jobs that simply may not be coming back.

A few months ago, a nonprofit looking to rehire its workers found difficulty in getting people back to work. They pay $15/hour, and the government is subsidizing workers to the tune of $18/hour in unemployment compensation. It was a dilemma for many.

Many argue that jobs exist for those who want to become employed. However, job training is needed for the future to bolster our workforce for job modernization. But are more government subsidies needed when we are at 6.0% unemployment? There will be increased focus on those who had jobs that are no longer relevant or insufficient to pay their cost of living.

Vaccine Hesitation

There is a degree of hesitancy in many circles to get the vaccine. Some worry about the effects of drug rushed to market, others are too busy and some feel that the disease never really existed and see no need to be immunized. California conducted a lottery to pay millions to people to get vaccinated. Millions to go get a shot that might save your life…these are crazy times! If you aren't vaccinated, should you be allowed to return to work? If you won't return to work, should you be entitled to unemployment benefits?

Return to Normal – Getting Back to School

The vaccine is now becoming available to those who were less vulnerable…the young. However, there are concerns from educators whether or not to open schools again. Anyone with school- aged children saw the effect of a year of Zoom classes and families locked up together in isolation. Children suffered from lack of socialization, inadequate learning with remote classes or no learning due to lack of internet connectivity or poor parental oversight. Statistics showed a higher rate of domestic violence. Getting back to school frees up parents back to work and/or return to their normalcy.

Post Pandemic Effect on Real Estate

1.) Apartments – as hot as ever, but there should be a lag in collections that are foreseeable until the rent moratorium is over. Cap rates are 4-5%.
2.) Industrial – the stay-at-home world taught us to shop online and wait for it to be delivered to our door step. This will not change, and the need for warehouses/logistic centers will increase.
3.) Hotels – Disney is open!! Expect uptick in demand in the resort communities but convention hotels may need to redefine themselves as corporate America is likely to slow down its travels for the foreseeable future.
4.) Retail – consumer spending has unleashed with tremendous pent-up demand to spend money…the neighborhood retail centers with restaurants and nail salons will see traffic surge and heathy tenants returning to normal. This will not necessarily be the case for malls and large box retailers who are being compromised by the “Amazon Effect.”

Clouds on the Horizon

1.) Inflation – you can’t pump trillions into the economy and not have inflation. The early spotlight is on lumber and other commodities that go into building products. There doesn’t seem to be any help or relief because sawmills haven’t re-opened to full capacity.
2.) Supply Chain Delays – when a cargo ship ran aground in the Suez Canal for a week, the entire world saw a backup of the supply chain…one cargo ship blocking a huge trade lane. This is reflective of an economy that has been backed up from supply due to the COVID shutdown. It will take manufacturers months to get back up to capacity, so expects delays in most consumer durables.
3.) Interest Rates – the Ten-year treasury has increased from 0.60% to around 1.65% in the past few months. Some economists feel that a 3.0% Ten-year would not be unusual by year end. This cost of capital will have ripple effects on all those seeking to refinance or to finance new projects and the cost paid investors.

Are You An Investor ?

We are in pursuit of several investments. If you are an accredited investor and want to be considered for one of these offerings, please reach out to us.

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