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Impacts of the COVID-19 Pandemic: How Retail, Office and Industrial May Be Affected by Changes in Human Behavior

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COVID-19 has taken our world by storm, breaking down fixed mindsets and stripping away belief systems related to proven commercial real estate methodologies. The changing paradigm of how we do business post-pandemic will result in ingenuity, resourcefulness, and innovation by owners and occupiers. The question most real estate professionals are facing right now is how and to what extent the experience of humans during the COVID-19 outbreak will impact their actions post-pandemic. Part of that question revolves around how fast the economy will bounce back. But even if we experience a sharp resurgence, there are still unknowns as to the lasting impacts of the forced use of technology on those who were previously slow adopters. Will the new adopters become accustomed to the efficiencies technology provides? Or will they return to their pre-pandemic ways of long commutes to the office and running errands?

While the post-COVID-19 habits of people will have a distinct effect on each asset type, ultimately all changes in behavior affect all asset types. For example, if a large company implements a work from home policy, retailers and restaurants in the neighborhood of the office may be directly impacted by decreased daytime traffic. Thus, not only will changes in behavior have a long-term impact on individual properties, they may have an impact on entire neighborhoods, ultimately changing the nucleus of entire cities.

ABOUT THE AUTHOR

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While we have already seen impacts on the multifamily and hospitality sectors, for the sake of this manuscript, we will focus on the impact of changes in human behavior on office, retail, and industrial product.

OFFICE

While there are multiple segments of the economy that have been deemed essential by governments who have implemented shelter-in-place mandates, office workers fortunate enough to have jobs that do not require help on the front lines have quickly adopted new technology platforms allowing them to collaborate and efficiently work from home. Video chat companies like Zoom and office furniture companies like Fully and Deskmate have seen a sharp increase in sales.

In the wake of COVID-19, top downloads from Apple's App Store have included video chat services and Microsoft has seen its workplace app, Teams, climb from 32 million to 44 million everyday users.[1] Some companies are even reimbursing their employees for the costs associated with setting up a home office, which suggests an investment in remote work for the long term.[2] Tech companies targeted at certain industries are hard at work reaching professionals who did not previously deem technology integral to their jobs. For example, Virtual APT is using this time to encourage brokers to begin using their platform for virtual tours.[3] Owners of office buildings are able to use this time to perform tasks like electrical work and installation of sensor technology that would normally be disruptive to tenants.[4]

While the retail sector is recognized for being hit with sudden losses of revenue, there is significant discussion about future approaches to office space and what employees will demand post-pandemic. There are hypotheses that companies will restructure to have smaller, decentralized offices (i.e. companywide membership at coworking spaces that have locations in multiple neighborhoods across a city) and will provide more flexibility revolving around employee lifestyles (potentially cutting down on long commutes).

Given we are just over a month into employees working from home, it is hard to say what kind of impact the shift is having on employee productivity. However, employees used to working in an office are already discussing the frustrations they are experiencing due to a lack of separation between work and home and the interruptions at home brought on by kids or pets. Although productivity levels are unclear and may not accurately depict working from home in normal conditions, most employers agree that regardless of impact on short term productivity, implementing sole "work from home" policies would pose too large of a threat to company culture and collaboration.[5] Instead, there is likely to be a more flexible approach that could have a long-term impact on the amount of square footage offices need per employee. Predictions around working from home seem to be more closely tied to part time or flexible work from home policies as opposed to omitting the need for offices altogether.[6] Some highlight the silver lining that loosening up work from home policies could result in unemployment statistics regressing to the mean more rapidly than in previous economic downturns, due to people no longer being limited by location.[7] Only time will tell how dramatic of an impact companies' experience with telecommuting during the pandemic will have on the nature and level of demand for office space.

RETAIL

In the short-term, most retail has seen a negative impact. Grocery and convenience categories have had mixed experiences, but restaurants and commodity goods have seen an almost unanimous hit. Of significance, the degree to which the latter has been affected is determined by how tech-enabled the company was prior to the virus and whether they already had diversified streams of revenue. For example, digitally-native retailers with a brick and mortar presence may be hit significantly less than those whose sole source of revenue was driven in the store. With this being said, it is important to remember that having a predominately e-commerce business prior to the pandemic does not ensure retailers are safeguarded from economic losses. Many of these brands sell non-essential products that are first to be cut when discretionary income is no longer available. Restaurants who already had delivery relationships and online ordering were much better positioned to endure the storm than those who were forced to adopt these technologies overnight.

Because the health of the U.S. economy was not intrinsically flawed moving into COVID-19, the retailers that have significant cash on hand will weather the storm and humans will continue to value the in-store experience because there are certain aspects that cannot be replicated online (i.e. trying on shoes, eating a meal at a chef's counter, etc.).[8] The long-term impacts of social distancing are yet to be known, and in large part will be dictated by government regulations and the speed at which a vaccine is found. Until a cure is discovered, governments may limit capacity in restaurants. This will have a direct impact on revenue and trickle to the amount they are able to pay in rents. Furthermore, the forced social distancing may have psychological impacts that last and extend beyond a vaccine and regulations. For example, humans may continue to develop habits around sanitation and personal space that will result in a decreased interest in crowding in tight spaces for activities like boutique fitness classes and concerts.

Another factor that will dictate the success of retailers moving forward are their actions and messaging towards employees and customers during the recessionary period. Some "non-essential" retailers have kept their doors open instead of protecting their employees and customers. This decision is resulting in flack from the media that will likely cause long-term damage to brand reputation.[9] Alternatively, retailers that have the luxury to not solely be focused on earnings are shifting their focus, using the opportunity to drive digital marketing campaigns that focus on brand awareness over increasing sales. Since the retail sector is inclusive of such a wide array of businesses, it is impossible to make blanket statements around the impacts of COVID-19. We can be sure that some uses will contract in their footprint, while others will expand into a higher volume of locations or into other asset types.

INDUSTRIAL

In the short term, there are concerns that industrial transactions will slow due to factors such as the closing of borders, slowed development, and a recessionary period.[10] However, the sudden and rapid adaptation of a large population of humans who would have never previously considered last mile delivery options shows that a much wider segment of the population may become accustomed to the efficiency, potentially increasing demand in the industrial sector. This fares well for companies that can significantly shrink the footprint of their retail stores or cut out the retail store altogether — replacing a larger number of high-cost retail units with cheaper industrial space. Since the onset of COVID-19, grocery delivery app downloads have hit record levels and worldwide online searches for "grocery delivery" increased by 450% in March 2020 versus March 2019.[11] Companies like GoPuff, which has been operating from this structure since their inception in 2013, serves as a great example of a company whose model replaces the need for convenience stores while keeping the customer experience seamless and entertaining. One of the primary hurdles experienced by manufacturers since the onset of COVID-19 is the speed at which ordered products can reach the home. With increased demand for last mile delivery and data storage, warehouses closer to density will become necessary and economies of scale will be created.

FINAL THOUGHTS

Ultimately, we are in the early days of understanding how the shifts in human behavior caused by COVID-19 have the potential to dramatically impact how cities behave. The flexibility of schedules may have a positive impact on traffic and parking demands as there may be fewer rules around when certain tasks need to be completed, leaving the decision to the individual as opposed to an entire company or government. With the ability to work from anywhere, we may also see fewer crowds at the airports during national holidays as people move towards spreading their vacations out to non-holiday times. Buildings themselves will likely feel the "impact disbursement" as well, with the ability to coordinate tenant schedules to avoid demand spikes for systems such as hot water. Another potential impact on the growth trajectories of cities is the flight to secondary and tertiary cities. Many people have fled major cities like New York where case counts are high, care is limited, and rent is expensive. Many individuals who lost their jobs may never return, leaving talent in less expensive cities in the Southeast and Midwest.

It is safe to say that no matter how long it lasts, social distancing will not entirely eliminate our need for space. If the growth of office and retail spaces slows (as predicted),[12] it can be understood why the need for warehouse space would be increased. Moving forward, it will be important for owners to track consumer trends and patterns as they pertain to the asset types they control. They will also need to evaluate the tenant's business models, ensure they are set up for success and ensure they are able to weather various economic conditions. Finally, contracts will need to have a newfound emphasis on clauses pertaining to continuous operation, force majeure, and co-tenancy. •

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