



# The New World of Real Estate and Economics

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### INDUSTRY INTERVIEW: Industrial Real Estate Adapting to Economic Climate

Frank Gatski, CPM, CCIM  
President & Chief Executive Officer  
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## SUPPORTED BY



# Contributors

## The Macro View



**David Grana**  
Managing Director  
**Vegasnomics**

David Grana is a financial writer based in Las Vegas. He has worked as a content writer for the Financial Times in London and Institutional Investor in New York. David established Vegasnomics for the purpose of hosting the Las Vegas Property Development & Infrastructure Conference - a vehicle that delivers tangible information on the property market to real estate professionals. Just like the complex issues that he has covered in his conversations with portfolio managers from the investment management industry, Vegasnomics brings complex economic and financial issues to the forefront of real estate professionals' minds.

## The Micro View



**Pam Junge, CCIM**  
Chief Adventure Officer  
**The Junge Group Powered by eXp**

Pam Junge grew up in Las Vegas and has made real estate her profession since the age of 17. Her vast knowledge spans title and escrow practices, private and commercial lending and every possible type of commercial and residential transaction. Most recently, Pam has pursued her passion of bringing technology and transparency to the home buying and selling process and aligned with eXp Realty, the fastest growing real estate firm in the country. Pam leads a dynamic team of commercial and residential agents on a platform built from three decades of providing consumers trusted services. Her mission is to grow industry leaders and real estate professionals through six core values - community, innovation, service, sustainability, collaboration and fun.

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### Industrial Real Estate Adapting to Economic Climate



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## The Macro View

**David Grana**

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"I've a feeling we're not in Kansas anymore." And, unless any of you have magical ruby slippers on hand, I wouldn't expect getting back there. The days of pre-February 19, when the stock market was riding high and the economy was unstoppable are gone. It's become clear that a quick economic rebound, albeit welcoming, is a mere illusion that not even the Great Oz could conjure up.



**"With the prospects of a quick rebound gone, the big question is no longer about whether we will enter into a recession, but rather, how deep will it be and how long will it last?"**

Many wonder if the arrival of the Treasury's stimulus and the plethora of small business aid are too little too late. I have my doubts about that, and now have come to believe that even timing was not enough to get us back to where we were. Although it was a massive weapon, the stimulus package lacked the firepower to fend off the barrage of attacks that COVID-19 has showered us with. I've no doubt that we will be victorious in the war against the coronavirus, but it will come at great medical and economic cost.

The opening of our economy will not be a ticker tape parade in Times Square with a dramatic kiss between a heroic sailor and nurse, ala VE Day. Instead, it will be carefully choreographed, in stages, and surrounded with much trepidation. It will be a tectonic shift of massive proportions that will have major implications for our economy, for the way we live our lives in the coming years, and on real estate.

Last week's 6.6 million jobless claims report, and the 6.9 million the week prior, are but a few of many similar reports that we will see in the coming weeks.



The long-awaited dramatic opening of the economy will pale in comparison to other victorious moments in our history.

With the prospects of a quick rebound gone, the big question is no longer about whether we will enter into a recession, but rather, how deep will it be and how long will it last? Those two factors are constantly moving goalposts, but the latest projections are less than promising.

The remainder of Q2 will be much about getting businesses back online and taking a litmus test of their viability over the short-term. This is where companies take a serious look at their finances and operational expenses and determine if and how they will survive in the new economic landscape. Some companies will have benefitted from the stimulus package, and any potential follow-up legislation, while others will be desperately seeking bridge loans or simply cutting costs as quickly as they possibly can. In spite of many dire predictions about Q2 earnings, I believe that Q3 will be the true period of reckoning.

## Get Ready for a PostCoronavirus World. The Economy Will Never Be the Same.

Published: April 10, 2020 at 11:41 a.m. ET

By Reshma Kapadia



Illustration by Shout

This is when many small and medium sized enterprises will either see their demise, or enter into what could end up being a litany of legal disputes and lawsuit filings that will rival the fistfights in the toilet paper aisle at your local Target.

But as we all know, in real estate, there will always be buyers and sellers in any market.

**"Commercial real estate is going back to the basics. Safe and dull will be taking the place of flashy and different for the time being."**

The only differences are the size of the pool of buyers and sellers, as well as the prices that are being negotiated. We are already seeing cap rates in the 7-8% range being advertised for office and retail properties that are occupied by "essential" tenants, such as government offices and Dollar Stores. You can expect to see much more of this in the coming months. Commercial real estate is going back to the basics. Safe and dull will be taking the place of flashy and different for the time being.

### PROPERTY DETAILS

PRICE  
**\$4,251,000**

CAP RATE  
**8.20%**

PROPERTY TYPE  
**Strip Center**

SQUARE FEET  
**34,837**

OCCUPANCY  
**100%**

STATUS  
**Available**

Rising cap rates will be part of the "new world normal" as economic conditions face headwinds.

Property managers will also need to rethink their post-pandemic plan, especially as questions about the next surge are likely to crop up. This will likely mean higher operational costs during a period when leases are likely to see massive decrease. NOI margins will undoubtedly feel the squeeze, forcing landlords to get creative.

And what about lease-breaks? Shame on any landlord that isn't already factoring this into their 2020 financials. Tenants across all asset classes will be requesting to come to the negotiating table, as they attempt to right-size their businesses, which may include vacating their current facilities. In time, we will get a better idea of which businesses will be successful in the post-pandemic world, and which will not. This will give the real estate industry a clear indication of who will be the tenants and property owners of tomorrow.



## The Micro View

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It's been exactly one month since Governor Sisolak issued a Declaration of Emergency in response to the pandemic sweeping our globe. Every day brings exponential change, leaving many Las Vegans wondering if life will ever quite be the same.



### DECLARATION OF EMERGENCY DIRECTIVE 008

WHEREAS, on March 12, 2020, I, Steve Sisolak, Governor of the State of Nevada issued a Declaration of Emergency to facilitate the State's response to the COVID-19 pandemic; and

As we learn how to live in this new world, standing on red boxes in the grocery store line, donning our masks, it's apparent that tensions are rising and nervousness is the new norm.

**"As Realtors and consumers struggle to balance essential housing needs and preserve the safety of their asset for the sake of the people living in it, all indicators point to trouble on the horizon."**

Undoubtedly, the carefree life we've loved and enjoyed in our vibrant city will be transformed to one of more personal space and without buffets and possibly other amenities when the casinos turn on their lights and open their doors again.

As the SBA comes to terms with executing the \$350 billion forgivable loan program designed to ensure that small businesses do not lay off employees, we have to wonder if the typical small business owner, defined as 500 employees or less, will be able to hang on. It should come as no surprise that an organization equipped to handle an average of \$30 billion in loans per annum is fraught with pitfalls and ambiguity as it attempts to execute a monumental legislation that was passed just two short weeks ago. While it may take many months to fully understand the true impact of this on business and the economy, what is becoming very clear is that the SBA lacks the gunpowder to fire this massive and much needed bullet.

For the first time in United States history, gig workers will be eligible for limited unemployment benefits. This could be a major shot in the arm for jobless independent contractors, provided by the long-awaited implementation of the CARES Act. After much delay, the Department of Labor finally issued its guidance to states over the weekend on the financial, operating and reporting instructions for unemployment divisions, so that workers could begin getting their federally funded \$600 per week relief.

As the city idles on pause, confusing headlines continue to make their way into the mainstream.

On April 7th, the Las Vegas Sun Reported, "Las Vegas Home Prices Hit Record Despite Coronavirus."

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### **Nevada jobless to receive \$600 weekly benefit retroactively.**

Nevada unemployment officials say they are awaiting federal guidelines on implementing the CARES Act, causing a delay for people to claim benefits in the relief package.

While that could paint a picture of a market in an upswing and impervious to the current economic backlash, it's important to bear in mind that those March records (closes) are a direct reflection of consumer confidence in January and February. We could not be more fortunate to have entered this pandemic on such a strong housing foundation, and the March numbers prove just that.

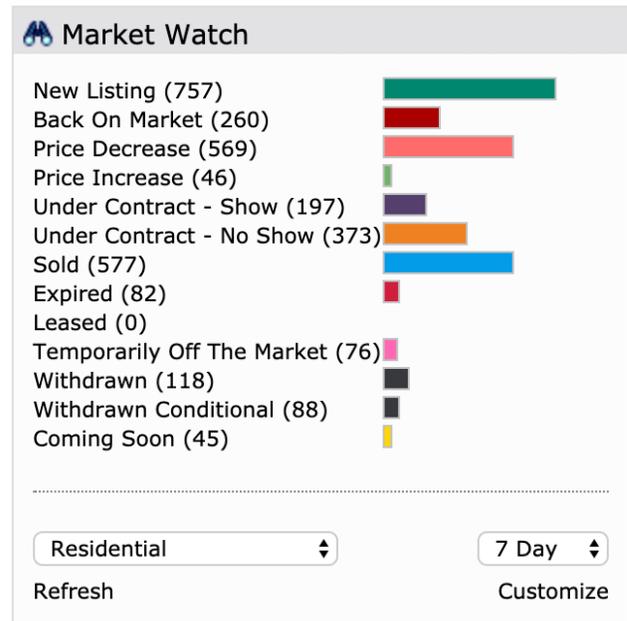
However, it's clear to see the ramifications that the shutdown is having already. A Las Vegas Review Journal headline three days later read, "Home Listings Tumble in Las Vegas, US Amid Coronavirus Crisis." As Realtors and consumers struggle to balance essential housing needs and preserve the safety of their asset for the sake of the people living in it, all indicators point to trouble on the horizon.

**"Because not all borrowers will be so fortunate, we can expect to see higher default rates six months to a year from now, along with many more homes on the market."**

Though spring is usually prime home shopping season, sellers are reluctant to put their homes on the market this year. Housing numbers are skewed due to physical and economic limitations of the pandemic, which we can glean from a few thought-provoking stats. New home listings were down 27% from a year ago in the first week of April. Despite the downturn in new listings, twice as many houses were listed (between new listings and those that fell out of escrow and went back into inventory) than were sold. Escrow cancellations were up 94% in the month of March, compared to one year ago. This is obviously a direct result of massive job losses and a disruption to business as usual. A surprising 560 homes went under contract, which appears to be a healthy number, given the circumstances. This could be partially attributed to all time low interest rates and affordable payments. Roughly 16% of all listings currently in the MLS reduced their asking price, while another 10% withdrew their listings. It's clear that a lot of would-be sellers are taking a "wait and see" position.

So what in the world does all this mean? Only time will tell. There are a million moving parts and pieces balancing in the wind and they will continue to unfold over the months and years to come, thus shaping our housing market.

Homeowners continue to take advantage of mortgage payment deferments while waiting out the storm.



The intent of the deferment is a literal timeout until borrowers can get their finances back in order with the support of unemployment, stimulus funds and possible re-employment. By the time they would be able to catch up on all of the back payments, they would, in theory, be in a fruitful position to carry on with their loan payments as usual. Because not all borrowers will be so fortunate, we can expect to see higher default rates six months to a year from now, along with many more homes on the market.

Just as the convenience of iBuyers was gaining appeal among sellers, the “ZOO” of institutional buyers, Zillow, Open Door and Offerpad, have put home buying operations on pause. In a recent article published by CNN Business, Zillow Group CEO and Co-Founder Rich Barton stated, “Our top priority is ensuring the safety and health of our employees, customers, and partners. Given the concerns for public safety and rapid developments by governments that restrict local real estate activities, we determined it was prudent to pause our home buying to preserve our capital. We plan to restore Zillow Offers’ full operations once health concerns pass and local health orders are lifted. In the meantime, we are working to support our customers and partners in these uncertain times when home has never been more important.”

Despite putting a pause on iBuying, Zillow said it will continue to market and sell homes via Zillow Offers, but will temporarily suspend its plans to open additional Zillow Offers markets. Without the no-fuss option of selling to the “ZOO,” those sellers strapped for time will be forced into traditional sale methods.

The world is different today and change is raging upon us on all fronts.

Spring has sprung in the city and the sun has finally broken through the clouds. Las Vegas are taking advantage of one of the few times we ever get to open our doors and windows and let in the fragrant smell of the blooming desert. Patience is still of the highest order, as we have a ways to go before lockdown is over. Hopefully the promise of spring and all that comes with it is enough to get us through another week. Be well and stay safe, Las Vegas. We're all in this together and we are **#vegasstronger**.





## **INDUSTRY INTERVIEW:** **Industrial Real Estate** **Adapting to Economic Climate**

**Frank Gatski, CPM, CCIM**

President & Chief Executive Officer

**Gatski Commercial Real Estate Services**

*A resident of Las Vegas for more than 40 years and a commercial real estate professional for over two decades, Frank Gatski, CPM CCIM is President/CEO of Gatski Commercial Real Estate Services. In an industry where your results are your reputation, Frank Gatski of Gatski Commercial stands among the top performing executives in one of the most dynamic, competitive commercial real estate markets in the entire country.*

*Gatski leads the company with an aggressive, forward-thinking style, planning for the future and seeking to better serve the client. While ensuring Gatski Commercial stays on top of emerging market trends, Gatski continues to structure service solutions that will meet the changing needs of current and future clients. Gatski holds the Certified Property Manager (CPM) and Certified Commercial Investment Member (CCIM) designations and is a licensed Nevada real estate broker.*

### **What's transpiring in the real estate market for you and your brokerage?**

Pre-COVID-19, the Las Vegas real estate market was very strong, the industrial market was doing very well, and we were seeing a lot of transactions. In a recent conversation, I was asked if there was anything concerning me in the run-up to that time period.

My response was that I saw housing prices continuing to increase and that rents in the industrial space were reaching historic highs, and cap rates were at all-time lows and my only concern was how long could we sustain.

Fast-forward a few weeks and most everything has come to a screeching halt. The only product type that seems to have any decent activity is industrial leasing, where a number of my brokers are still showing properties and there have been a number of deals that have fallen through because of the direct impact from COVID-19. One of those was a \$3.5 million State lease, which was unable to go through because of government moratorium on State lease expansions. Another one was an office building purchase that had gone through due diligence. It was initially extended for two weeks and then completely put on hold because of so much uncertainty.

**"I have 1,000 commercial tenants, and since the closure of the casinos, I've had non-stop phone calls with concerned clients and tenant requests for rent relief."**

### **How has the property management arm of your business been affected?**

I have 1,000 commercial tenants, and since the closure of the casinos, I've had non-stop phone calls with concerned clients and tenant requests for rent relief. There is a state order preventing evictions and penalties for late payment, which offers them protection. We've also taken the initiative of directing our tenants to the various resources for small business relief. However, this whole situation puts many landlords in a very difficult position. There are some that have plenty of capital in reserve, or own their building outright, to be able to withstand the decline in rental revenue. Some of these landlords have taken a humanitarian approach and have agreed to take 50% of the rent for a few months, with a payback plan while their tenants receive financial aid. I'm sure that we'll see more phone calls with similar requests as this crisis continues to take longer.

### **Are banks being cooperative in the midst of all of this?**

My understanding is that CMBS lenders have come to a complete stop and financing overall has stalled. Those that are lending are looking at the strength of the underlying asset, as well as the borrower's experience. They've learned their lessons from the Financial Crisis and want to make sure that their capital is protected.

Property owners have been working with their lenders to come up with viable solutions for their mortgage payments. That includes forbearance, whereby payments are forgiven for a few months and added to the back end of the loan. Another creative solution has been the lender offering to drop the mortgage payment amount so that it is interest only for a few months.

## **"Out of all of the product types, industrial has the best chance to continue growing."**

### **Are you optimistic about the prospects of industrial real estate?**

Out of all of the product types, industrial has the best chance to continue growing. Under the current circumstances, it may not be quite as hot as it has been, with the diverse types of tenants that we've seen in recent years, but its prospects are still promising. This contrasts with office and retail, which we think will have a much tougher time.

### **What are concerns about the Las Vegas economy?**

We're the entertainment capital of the world! Our product is large gatherings and fun. Our economy is built on shows, concerts and conventions. This is a time when people are not doing any of those things, and we don't know when they'll want to again. Casinos may need to reinvent themselves in order to adapt to this new normal. Retail is directly affected by this as well, and they will undoubtedly go through their own struggles. These establishments rely on small margins, and a minimal decline in foot traffic could have a major effect on profitability.

Business as a whole may be changing. I look at the situation with my own company, where we're all working remotely so that we're safe and healthy. But what I've come to realize, which I think many small companies may have come to find, is that working remotely with the aid of technology is incredibly efficient. Furthermore, we may see clients more accepting of the way that we're doing business now on a regular basis moving forward. I'm hearing a lot of the same from my industry peers. This raises the question of what impact this will have on office space. We've seen tech companies already move in this direction, but what if traditional businesses decide to do so? The benefits of cutting down on overhead could be tremendous. The reality is that we have yet to fully grasp the full effects of COVID-19 on business and real estate.

**"We feel that tenants such as Amazon, medical, pharma and trucking companies will be the most dominant in industrial for the foreseeable future."**

### **How will tenancy in industrial real estate change?**

The casino industry is a driving force for the entire Las Vegas economy, including industrial real estate. I have a client who has a lot of smaller, Strip-adjacent industrial tenants who service the casinos, and they're struggling at the moment. That said, I work with my team to ensure that we adapt with the times and look out for the types of clients that are successful and in need of space. I do see logistics, distribution and fulfillment continuing to grow in our region. We feel that tenants such as Amazon, medical, pharma and trucking companies will be the most dominant in industrial for the foreseeable future. At the end of the day, we have to figure out where the market is going and how we adapt to it.

**Find out everything you need to know  
about the Las Vegas property market**



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