



# The Wartime Economy

Published April 27, 2020

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## INDUSTRY INTERVIEW:

### Summer 2020: Breaking Point for Many Businesses

Ogonna Brown  
Partner  
Lewis Roca Rothberger Christie LLP

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# 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 Powred 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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# Table of Contents

**The Macro View ..... 4**

**The Micro View ..... 8**

**Industry Interview:**

**Summer 2020: Breaking Point for Many Businesses.....15**



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## The Macro View

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This is not a financial crisis, but it might as well be. The spigot is drying up, and there is simply not enough liquidity flowing to meet the intended goal of getting our economy back on track. In spite of yet another \$484 billion in stimulus passed by Congress, there are serious doubts, even by banks managing PPP loans, that it will be enough.



Source: CNBC

Lenders are tightening their requirements for borrowers, while refinance applications are up 225% year-on-year, showing that property owners are scrambling to get cash from any source available. And if you're looking for those 0% balance transfer offers from your credit card company in your mailbox, you can simply forget about it.



Economist Paul Krugman has given the Fed an "A" for their efforts throughout the COVID-19 crisis.

Besides, low interest rates are not the panacea when capital is getting gobbled up by everyone at the same time. The Federal Reserve has done its part, and then some. Economist Paul Krugman gave Jerome Powell's efforts through this crisis an "A". The Federal Government, on the other hand, is where the problem lies.



**"Our Federal Government may need to take on debt levels of 150% or even 175% of GDP in order to see us through this crisis and prevent the economic deterioration that is unfolding before our very eyes."**

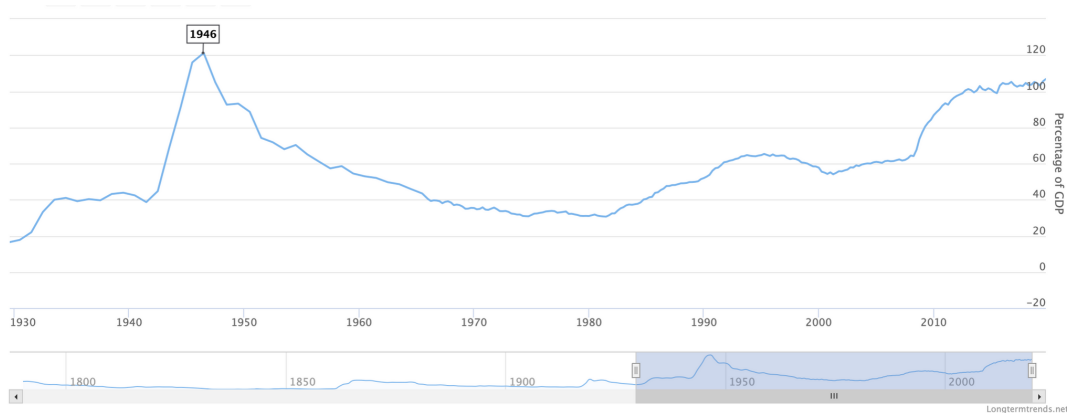
And this has nothing to do with President Trump, Dr. Fauci, or the COVID-19 response team. This has to do with the paltry amount of money that the US Treasury and Congress have been willing to allocate to what has been labeled as a "wartime crisis."

Look no further than the deficits incurred during WWII to see the effectiveness of, not just a bazooka, but of formations of tanks, fleets of ships, squadrons of planes and battalions of soldiers. WWII sent people to fight and to work. It was a period of rations and sheltering, and of the mobilization of an industrial machine to combat a common enemy. Sound familiar?



The big difference is that there was money - and lots of it - to back this effort. US debt-to-GDP skyrocketed from 38% in June of 1940 to an historic high of 121% in June of 1946. Government debt more than tripled over six years to achieve victory. While that's a scary amount of debt, and difficult to stomach, economic growth and budget cuts that followed brought that level down to 88% by 1950, then 52% in 1960, and 30% in 1981, before it started to grow once again. Today, that level hovers just north of 100%.

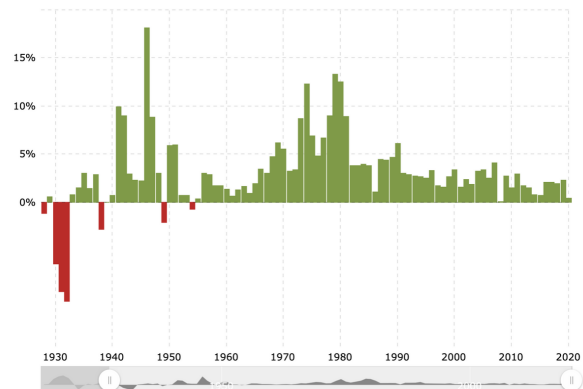
## U.S. Debt-to-GDP 1930-Present



Grit and endurance can only take us so far. Our Federal Government may need to take on debt levels of 150% or even 175% of GDP in order to see us through this crisis and prevent the economic deterioration that is unfolding before our very eyes. It's time to put the bazookas away and to properly arm us for the real fight ahead, which is to bring back our economy.

The most prevalent argument against this approach is the threat of inflation. However, the 2008 Global Financial Crisis brought on expansive government spending and debt issuance, but it was not followed by the spikes of inflation seen in the immediate years following WWII and of the late 1970s.

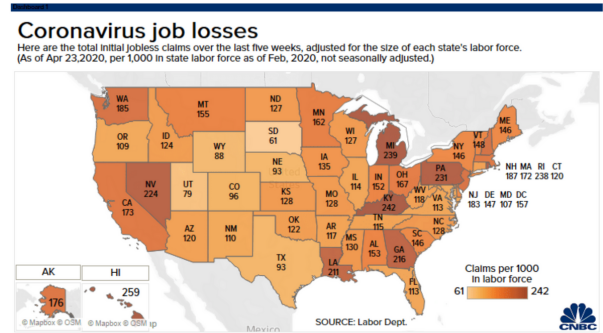
## US Inflation 1930-Present



That is not to say that 150% or 175% debt-to-GDP won't bring about a potential threat of inflation. The way to protect ourselves from falling into that trap is to grow the economy through employment opportunities, followed by a well thought out and executed belt-tightening, and steady, but calculated interest rate hikes over a prolonged period of time.

**"Real estate - particularly commercial real estate - will be among the hardest hit, as businesses contemplate bankruptcy."**

We've all seen the news reports. State shutdowns for most have been extended well into May, the latest unemployment claims have wiped out all of the jobs gained since the Global Financial Crisis, and oil prices have plummeted due to lack of demand.



Liquid assets have seen their value erode, and real assets are not far behind. Real estate - particularly commercial real estate - will be among the hardest hit, as businesses contemplate bankruptcy. We're already seeing the bonanza of retail commercial properties for sale nationwide. It's not long before cap rates begin to rise, lest we get a stronger Federal response.

If this is a wartime-style crisis, then we need a wartime-style response.





## The Micro View

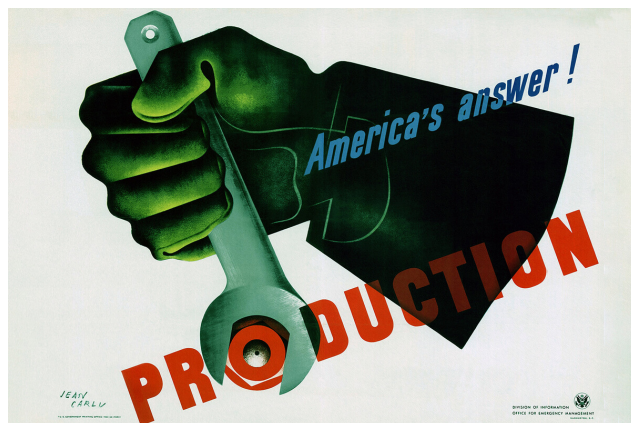
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Last week, President Donald Trump labeled himself a “wartime president.” To that point, the total nature of the global response to the coronavirus makes the metaphor of wartime economy very relevant today.



According to Wikipedia, “A war economy or wartime economy is the set of contingencies undertaken by a modern state to mobilize its economy for war production...a system of producing, mobilizing and allocating resources to sustain the violence.”

The idea has been invoked to mean a variety of things: productivity, sacrifice, reform, solidarity, and resourcefulness. A quick glance in the rearview mirror replays a short film of our government scrambling to manage a public health emergency at the same time that central banks act to calm financial markets and armed forces are deployed to build hospitals and manage city logistics - all while citizens have been placed on house arrest. It looks a lot like war, and one we’re gaining ground on.

It’s now become clear that until a vaccine arrives in 2021 at the earliest, there is no life post-coronavirus—there’s only life with coronavirus. It’s up to us to understand: a) to what extent our lives will change, and b) how we can use this shock to the system to remake our world for the better.

## **"The unintended consequences of our economy coming to a screeching halt is wreaking havoc of epic proportions on Clark County's Budget."**

The unintended consequences of our economy coming to a screeching halt is wreaking havoc of epic proportions on Clark County's Budget. Chief Financial Officer Jennifer Colvin reported last week that Clark County is projecting a \$1 billion loss in revenue over the next 16 months as a result of the closure of non-essential businesses.



To compound the matter further, the county optimistically passed a robust \$1.46 billion budget last year, banking on a continuation of a flourishing economy. To put it into perspective, the bulk of the county's revenue (approximately 73%) is covered by consolidated room and sales tax, as well as hospital and airport revenues.

"If these revenues continue to decline, the county will be obligated to pay off these debts with some of its general fund or raise the property tax," Colvin said. One plan to balance the budget is to cut back more than \$38 million for the Clark County Detention Center, Metropolitan Police Department and University Medical Center. History repeating itself? Hopefully the state is hatching some plans on how to keep public and social services afloat when people will be needing them - likely more than at any point in any of our lifetimes. Taking the very spine out of an already burdened system during a crisis is akin to a one-legged man walking a tightrope.

Perhaps a myopic decision to turn the lights off in the city that never sleeps should have been met with a diligent and precise plan for turning the lights back on.



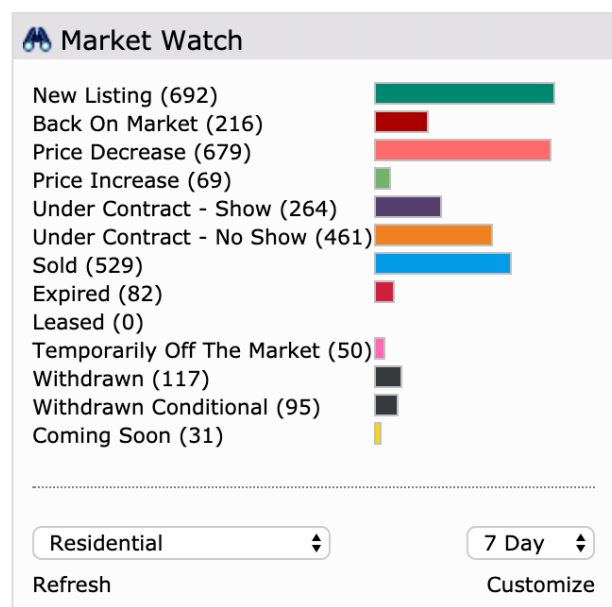
Wynn Resorts rose to the occasion by sharing a 23 page document outlining their detailed plan of action in the absence of a plan by Nevada's leadership - perplexing and kudos to them! This carefully considered outline could very well be the only viable, constructive outline for other casinos and businesses to model themselves by at this time.



The Nevada Gaming Control Board also weighed in last week with a six-page, 18-point policy memorandum on procedures for reopening casinos. These procedures are mainly limited to the scope of licensing, tax and legal operational guidelines.

**"...85% of over 326,000 businesses across the nation were reporting a negative impact due to coronavirus."**

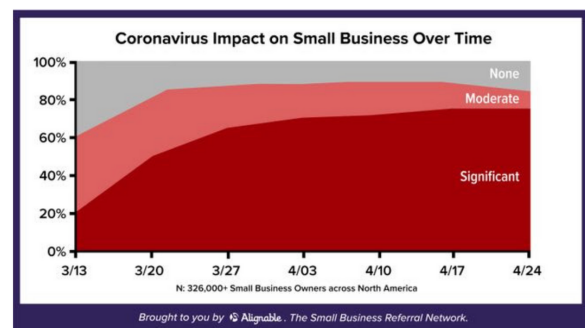
As the world sits on pause, so follows the housing market. The opportunists are gone and we're left with only those that have to move. The previous week brought another 805 houses on the market, however, year-over-year, we are down approximately 1,500 listings. This puts us at four months of inventory, with a little cushion before the alarm bells start to ring. Price reductions continue climb, with another 638 downward adjustments this week.



This could be the reason that accepted contracts and closings came in strong and over-produced. The closing numbers undoubtedly speak to a relatively high amount of consumer confidence, despite living in a pandemic. While this is great news on the resale housing front, without being too pessimistic, we will know the overall impact and if values are declining by the end of the month.

The troops are getting restless on the homefront, as evidenced by several staged protests last week with demands to open up the economy. We're beginning to see that one size does not actually fit all and not every state can be tailor-fit to New York City's numbers or responses to them. Las Vegas has a financial ecosystem all its own and the city is crying for leadership and action. The common theme of the week is "we have to start somewhere and we might as well start now."

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#### Leveling Out Again, Amid Ups & Downs

85% report negative effects from the virus with a slight uptick in businesses experiencing "significant impact." We're seeing signs some states & provinces are starting to break the suffocating hold the Coronavirus has had on their economies. [Look at the latest trends & update your status.](#)

Consumer confidence will play a significant role in ramping the city back up. With hopes of reopening soon, business owners that rely on that confidence, along with tourism, wrestle the 900 pound alligator of uncertainty. For instance, if the phased opening of a restaurant on the Strip calls for opening at 25% occupancy, will there be anyone to fill those limited seats?



The Las Vegas Review Journal recently interviewed Grant Turner, owner of The Dillinger, Evan's Old Town Grille, Forge Social House and The Tap in Boulder City. "My contention is that any of the specifics of capacity are so arbitrary... What we need is hope. We need momentum. Right now, there isn't even a pinhole of light at the end of this tunnel. Anything is better than what we see now," Turner said. "People are dying on the vine; you see people's spirits just breaking." Turner also said he's talked to some restaurant owners who are just about to give up. He said he sees an analogy to someone who's rowing a boat in dense fog. As of April 24, small business referral network Alignable reported that 85% of over 326,000 businesses across the nation were reporting a negative impact due to coronavirus.

**"The conventional mortgage market continues to tighten during the pandemic in an effort to mitigate risk and ascertain who will actually be able to repay their loans."**

The coronavirus crisis has had an uneven effect on real estate. While its long-reaching effects quickly changes the way we conduct business, commercial real estate practitioners continue to adapt to these changes on a daily basis.



Opportunists are banking on the reimagined use of real estate assets in a big way. Workers have cleared out of offices and are working from home and the question arises - is it necessary to work out of an office five days a week? The office may become a mere collaborative hub and meeting space versus the everyday norm (WeWork could just possibly come out of this smelling like a rose).

E-commerce has soared, sending an ever-increasing amount of packages to bulging-at-the-seams industrial distribution centers. Centrally-located retail properties that may be empty now could function as distribution centers. A change like this would accelerate e-commerce adoption and the dominance of industrial real estate. Outlying retail spaces could become window shops and merely a place to touch, see and order. And the million dollar question we're hearing over and over is, "Will families de-urbanize, taking the six-foot rule to a whole new level and bring back bedroom communities?" It's a very palatable option when the prospect of working from home becomes reality.

The conventional mortgage market continues to tighten during the pandemic in an effort to mitigate risk and ascertain who will actually be able to repay their loans. The private lending industry came to a screeching halt and changed overnight, but what exactly happened?

### **Mortgage rates go up slightly as some lenders tighten restrictions on who qualifies for a home loan**

Published: April 24, 2020 at 10:23 a.m. ET

By Jacob Passy

Many banks and lenders have imposed more stringent requirements for new borrowers amid the economic uncertainty caused by the coronavirus pandemic

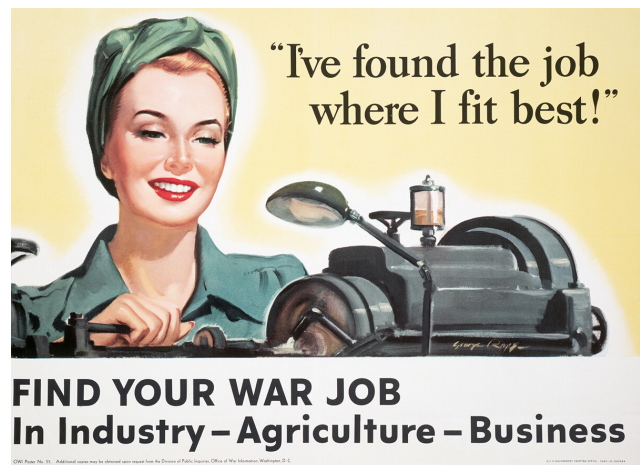


CIVIC President & CEO William J. Tessar recently shared his insights and perspectives, reciting that the recent run on credit pushed private lending paper to highs of up to 80% loan-to-value ratios. According to Tessar, the economy shut down incited a 48 hour drop in the value of those loans by 10%, with future uncertainty in property values. He further suggests that those companies that may have been over-leveraged at the time will cease to exist and private lending will morph yet again, with more emphasis on verifications of a borrower's ability to repay, versus so much weight on property value alone.

The Las Vegas housing market continues to show...well, nothing. There is simply nothing of significance to report on the residential front. New listings went down by 108 units from last week's report of 805.

The number of price reductions did tick upward, and it must be pointed out that this number is, in fact, high compared to “normal” times. However, the number of reductions is not skyrocketing week-to-week. Home buyers put 725 homes under contract, which is strong and surpasses those put into escrow the past several weeks. By all accounts, the reaction to the city’s shut down at this time is negligible. Zillow is reporting an uptick in traffic on their web site and declares that “...buyers are ready to buy again!” And as I write this, I can’t help but admit that I’m waiting for the other shoe to drop. Only time will tell if the menagerie of unemployment, the financial markets, copious loan deferments, consumer confidence, and the human will to survive will keep the housing market from taking a plunge. One Google search on “housing recovery post-COVID-19” will undoubtedly bring up myriad opinions with a plethora of data, charts and graphs to back it up. Whether it’s V-shaped, U-shaped, check mark-shaped or Nike swoosh-shaped, everyone has a viewpoint. But honestly, is it possible to predict anything right now? Right now, in the midst of the battle?

President Trump made a declaration last week that the United States of America will go through another renaissance period when we emerge from this fight with our invisible enemy. The statement invokes beautiful images of community, culture and caring.



While no one can deny the incredible side effects to the planet that have unfolded while human life is sheltering in place, right now we’re just trying to see the light at the end of the tunnel. We know that life with COVID-19 will be different. Now it’s up to us to ensure that we’re creating a better, healthier, stronger world as we emerge. The time has come to pick ourselves up, persevere and take action. Our city was not built to fail, and we won’t let it. Stay **#vegasstronger**.



## INDUSTRY INTERVIEW:

**Summer 2020:**

### **Breaking Point for Many Businesses**

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*Ogonna Brown is a partner in the Lewis Roca Rothberger Christie LLP Litigation practice group. She is a practically-minded business lawyer with years of high-stakes experience, focusing her practice on creditors' rights, secured party representation, and commercial litigation. Ogonna has extensive experience representing bankruptcy trustees and state court receivers. She collaborates with all of her clients to fashion creative solutions and efficient results in complex litigation matters in and out of bankruptcy.*

### **What were you focusing on pre-COVID-19?**

I was getting prepared to speak on a panel at the American College of Bankruptcy's Annual Conference in Washington, DC and our law firm was organizing our annual partners retreat. And then from one day to the next, it all came to a screeching halt. Legal conferences, court room appearances for litigation matters, depositions, evidentiary hearings and trials were all canceled until further notice.

### **How did you adapt to the new state of the world?**

Our firm mobilized rather quickly and we provided our clients guidance on issues such as whether or not our clients were deemed essential businesses, how to address staffing issues, whether or not a company or business could remain open, and what they needed to do to ensure their employees' safety. We had to compile the information that was delivered by the President and the Governor in their respective press conferences and synthesize the information into a format that was clear for our clients to quickly understand so that they could comply with the new rules that were being introduced. We then published this information on our website, so that it was meaningful and useful, and advised clients and their teams to provide them with guidance during this unprecedented time.

**"I foresee the levels of personal and commercial debt coming to a head and companies either going under or reorganizing their liabilities."**

**What structural changes do you foresee for contracts down the road?**

I see amendments to leases, as well as rent abatements, forbearance and forgiveness down the road. At the moment there are lease amendments here in Las Vegas, as well as unique agreements. Some tenants are making arrangements to provide a portion of the proceeds of the Federal aid to their landlords in exchange for temporary forgiveness on the front end.

**Is there a willingness by landlords to work with their tenants?**

Not entirely. Local government has had to get involved in some instances to prevent landlords from evicting tenants, however, many landlords have been willing to negotiate with tenants during these times in varying degrees.

**How are some tenants coping with the current set of circumstances?**

Restaurants have particularly been hit hard and have been unable to pay rent. Many of them have remained open more as a public service, offering food pickup and delivery, but the revenue generated from that has barely been able to pay staff.

There is an interesting dichotomy within the landlord community. Some own their property free and clear, while others are servicing debt. Some of these landlords that are eligible for financial aid themselves, but many have not applied, or some have not yet received the funds necessary to help them through the crisis. Landlords that own property outright have the ability to be more flexible with their tenants.



## **Is there litigation on the horizon due to force majeure?**

Yes. In fact, this has been coming up between business owners and their insurers over business interruption insurance. We will very likely continue to see more cases like these come up in the legal system.

**"You can't expect us to go back to business as usual when our casinos have been shut and only a fraction of their guests may come back upon reopening."**

## **Are you preparing for litigation when we open the economy back up?**

I am preparing for bankruptcy litigation. I foresee the levels of personal and commercial debt coming to a head and companies either going under or reorganizing their liabilities. You are already seeing this with some of the larger companies, such as Barney's (pre-pandemic), and possibly with even a giant like Neiman Marcus. Creditors will be facing many bankruptcy litigations over the next six to twelve months. The surge of filings will likely come in the summer, which is when I see businesses and individuals hitting their breaking point. This is especially true in the case of brick and mortar retail establishments, who are bearing the brunt of this shutdown. Their online presence may survive, but the question that lingers is whether or not their customers will want to come back to their physical locations. The same goes for many eateries. There are some establishments that were already struggling going into the current situation and simply ceased business operations just shortly after the shutdown. All of this is in contrast with e-commerce, which has been successful and will continue to thrive.

## **What does the foreseeable future of Las Vegas look like?**

You can't expect us to go back to business as usual when our casinos have been shut and only a fraction of their guests may come back upon reopening. The figures from Macau are very telling of where we will be, and it's not very promising. I see a resurgence of receivership actions in Las Vegas and throughout the State of Nevada. Under Chapter 32 of the Nevada Revised Statutes, creditors have the ability to seek the appointment of a receiver, which is probably the most sensible thing in order to prevent a property from going into disrepair, or from being properly insured or secured from vandalism and theft. With empty storefronts, it will simply be too difficult for borrowers to maintain the asset and keep up with operational expenses, such as utilities, real property taxes and insurance. I strongly believe that, in many cases, this will be the only way going forward for lenders to protect their collateral.

## **How does your role evolve throughout these changing circumstances?**

I'll have an opportunity to mentor and delegate more because I will be very busy managing the forthcoming bankruptcies. In the legal world, we're going to have to adapt to a completely new way of dealing with cases with the aid of technology. This includes having seamless and secure systems to handle depositions, witnesses at evidentiary hearings, introducing exhibits, establishing the authenticity of documents, all while protecting your client's rights.



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



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