nyrej

CREW New York analyzes 2021 economic outlook

March 23, 2021 - Front Section

New York, NY Even though rising COVID-19 cases in the U.S. are making it difficult to envision a return to normal, the increasing vaccine distributions around the country strengthens expectations of economic resilience for the nation as a whole. But while the national economic recovery appears to be advancing ahead, despite the growing COVID infections, there are several indicators suggesting a slowing economic activity nationally and in New York City. Rebecca Rockey, economist and global head of forecasting for Cushman & Wakefield, joined members and colleagues of CREW New York on January 21st to discuss the economic forecast for a year that started in the midst of a pandemic.

In the wake of a strong downturn of the markets, due to the pandemic in early 2020, the past year closed out in record highs, but the U.S. economy and labor markets began to lose steam heading into 2021, with northern states seeing a more notable slowdown. Rockey explained that additional fiscal stimuli, both what was passed in December and what is likely to be passed in the next two months, will help avoid a double-dip recession. However, looking ahead into the second half of 2021, the markets will be looking toward more of a private-sector-driven recovery and will be watching things like private business investment in intellectual property, software, industrial equipment and real estate, as well as consumer spending on services.

When looking at the economy as a whole, the more optimistic analysts have forecast a V-shaped recovery, in which the rebound is fast and strong, while other analysts are predicting a U-shaped recovery, wherein a period of slow recovery gives way to a quick upturn. However, the concept of a K-shaped recovery across markets, industries and wage tiers for the labor market recovery and recovery at large, has firmly taken hold. The concept of a K-shaped recovery, in essence, describes how certain areas of the economy have nearly or fully recovered as other areas are still declining.

One of the slower-to-recover markets, specifically in New York City, is that of small business revenue. For commercial real estate, the office market, characterized by its supply side, was significant before COVID but resulted in a vacancy rate more than 11% before the pandemic struck, according to Rockey.

“As a reference, we tended to top out around 11 to 12% at the peak of a recession,” she said. “Given that New York City’s demand was among the hardest hit, record-level vacancy numbers are expected to be reached in the coming quarters.”

Although there are expectations to lead to significant repricing in the leasing market, it’s worth noting that New York City traditionally sees sharp rent contractions during recessions because its rents are volatile. There are a handful of other markets in a similar position, she said.

“New York City was hit harder and contracted faster than the nation overall during the initial peak of the pandemic, and therefore now has a longer road to recovery,” said Rockey. “But, as we approach 2022, we foresee New York City as outperforming national GDP growth.”

Regardless of headquarter relocations and the nascent office labor market recovery, office fundamentals are being significantly disrupted. To date, the US has recorded 104 msf of negative absorption, making it already worse than the dot-com and GFC downcycles. Local dynamics are nuanced, showing leasing rates down across the board.

Across the nation, the sharpest increases in office vacancy have been in San Francisco (11,000 bps from 19Q4 to 20Q4), Austin (840 bps), Midtown South (650 bps), Seattle (600 bps), Salt Lake City (590 bps), and Nashville (470 bps). Policy actions should assure effective support until the recovery is firmly underway, ensuring participatory growth that benefits all, Rockey said.

Rockey is both an economist and the Global Head of Forecast at Cushman & Wakefield. Studying economies demographics, financial markets and commercial real estate at both the macro and micro level, Rockey is responsible for various real estate forecasts across the Americas. She is certificated by the International Institute of Forecasters and is a member of the American Economic Association and the National Association of Business Economists.

Prior to working for Cushman & Wakefield, Rockey, worked as a consultant at a finance/economics consulting firm engineering models to forecast loss reserves for a Fannie Mae’s single-family private-label MBS portfolio. Prior to that, she was a junior economist at the Congressional Budget Office in the Financial Analysis Division. Rockey hold multiple degrees, including a Bachelor of Science in International Studies, a Bachelor of Arts in French & Francophone Studies, a Bachelor of Science in Economics, a Master of Applied Economics and holds a Post-Master’s Certificate in Quantitative Methods in Applied Economics.

A dominant force for women real estate professionals in New York City, CREW New York has long been a leader in networking, education and community outreach. As a chapter of the CREW Network, CREWNY provides its members with direct access to more than 10,000 commercial real estate professionals in more than 70 major global markets.