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# WeeklyTAKE

SILVER BELLS (AND SILVER LININGS): AN EXPERT PANEL ON THE FUTURE OF THE GLOBAL ECONOMY

W/ MARK ZANDI AND JULIE WHELAN [12.22.2020]

## **Spencer Levy**

I'm Spencer Levy and this is The Weekly Take. We're breaking from our usual routine to bring you inside a CBRE special event, selections from a recent invitation only call we held with some of our top financial services clients. The topic: banking, the outlook for commercial real estate in 2021. Joining me on this virtual panel were a pair of all-star thought leaders, Mark Zandi, the chief economist for Moody's Analytics, and Julie Whelan CBRE's, global head of Occupier Research. We dug into the economic developments that are going to shape the real estate in the financial service industries in 2021. We talk about politics and policy making in this time of presidential transition and the emergency approval of COVID vaccines and more. Please note, this call was recorded on December 10th, 2020 with the participants gathered remotely on a Zoom call, it may sound different than our usual program. The format is informal, insightful and highly informative. So let's log in: banking and commercial real estate for 2021. That's right now on The Weekly Take.

Hello to all of my friends in the financial services industry. I've met most of you at many CBRE events in person in the past, and I'm going to meet you again in person again in the future, hopefully as early next year as we can. But help us determine when that's going to be and what it means for the economy. Mark, Julie and I are going to talk about it both big picture macro and then right down to the weeds of what it means for you as financial services companies. So, Mark, first to you. Thank you for joining us. And Mark, why don't we just start off with a big question where is the economy in the United States and beyond that globally right now? And what do you see for 2021?

## **Mark Zandi**

Well, thank you, Spencer. I want to thank you to you and Julie and CBRE for the opportunity to be on this panel. Well, that's a big question. I'd say at this point in time, the US and global economies are struggling. You got a sense of that. Just today, the Bureau of Labor Statistics released data on the number of claims for unemployment insurance, and they rose again quite substantially. Now that that's weekly data bounces around quite a bit week to week. But I think it was a pretty definitive increase and is consistent with the weakening and job growth we saw for November in the report we got from the Bureau of Labor Statistics last Friday. So the surging pandemic, the intensification of infections, hospitalizations, deaths, is doing some damage, some real damage to the economy at this point. And I think I would go so far as to say that the economy is at risk of backtracking here, going back into recession. If lawmakers, Congress, the administration, don't get it together pretty soon and pass another fiscal relief package, if they don't do that either in the lame duck or soon after Joe Biden, Vice President Biden is inaugurated, then I think will likely go back. We'll go into a double dip recession here in the US. The rest of the world is also struggling again, in large part because the pandemic is raging almost everywhere. The only exception is, is Asia, Australia, New Zealand, Singapore, Taiwan, Hong Kong, Japan, Korea and of course, China have navigated the health care crisis well. They locked down like we did back in the spring and did a marvelous job of testing and tracing. And that's worked. They've contained the virus and their economies have come back. And China is already has recovered all of the GDP that it lost in the recession. Just give you one anecdote: so I have almost 250 economists that report to me around the world. We, as you can imagine, have offices in different parts of the world. One of our offices in Shanghai and I was just chatting earlier today with one of

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the economists that went back to China two or three weeks ago, and she told me that since she left New York two or three weeks ago, she's been tested 13 times, 13 times. So they're pretty serious about making sure that they've got a grip on this virus. And it has paid off. We here have botched it badly and we're paying a price. And the economy is at this point struggling. Now going into next year, the next several months are going to be difficult. Hopefully lawmakers act and it won't be recessionary. But the good news is we do have vaccines. They look like they're going to be rolled out here pretty soon. A lot depends on adoption, but it feels like we're going to get some good adoption here by households. And so I'm hopeful that as we make our way towards the summer and certainly by the end of this year, so we reconvene a year from now at this event, I think we'll feel much better about things. The pandemic will feel like it's almost in the rearview mirror. And as soon as that happens, as soon as people feel like the coast is clear, I think growth will pick up and kick into a higher gear. There's a lot of pent up demand for travel, for going to ball games, restaurants. I live in suburbs of Philly. I've been on my back deck; I've invested aggressively on everything you can put on your back deck. Deck chairs, umbrellas, by the way, Spencer, I highly recommend a power washer if you don't have a power washer, that is pretty empowering. But I have not been traveling. I've not been going to restaurants. I'm not going to concerts. And I can assure you I will be doing all of that when I get to the other side. And so we just have to get from here to there. Hopefully we get a little bit of help from lawmakers to do that. If that's the case, then I think we're off and running by this time next year.

## **Spencer Levy**

Well, Mark, you'll be happy to know that I had my fiftieth birthday this year and out sitting on my back deck is a new smoker and the smoker is so cool that I'm able to control it with my iPhone temperature wise. And I did a call two days ago. I shut down every Internet connected device in my house, except that. I said, if everything's got to go, it's got to go. Except that.

## **Mark Zandi**

Good move. Good move.

## **Spencer Levy**

So Julie to you now. So Mark painted a picture of where we're going in the economy. And before I ask you what your best back deck addition was during the pandemic, you've also done some world class world leading surveys seeing what does all this mean for our office tenants? Julie, why don't you give us the big picture, given the fact that we're likely to be in a mode similar to where we are today in the United States for about six months or so or more, maybe what our office clients saying?

## **Julie Whelan**

I may not be into power washers or smokers, but what I have done, according to Mark's theory, that there's pent up demand, I have been redecorating my house constantly because I am so sick of looking at the surroundings. So I am one of those people that is always online shopping, Wayfair, trying to find the next new thing to make me happy at home. So I do believe in that. But yeah, so we have spent a lot of time just surveying clients and trying to figure out what is going to be the future of office demand. Clearly, COVID created a recession, as Mark talked about. But what it also created was an environment where people could not use their office space. And so what we saw prior to COVID was very quietly sort of these trends that were bubbling up to the surface around office demand. However, a lot of people really didn't have an AHA moment about them. I would write about them all the time and people would read them and say, oh, that's interesting, but

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continue to lease large lots of space. Fast forward to COVID. And all of a sudden they were the smartest articles anybody could have written and everybody was having these light bulb AHA moments because they finally had to come to the realization that people can work differently. And they're not only coming to that realization, but they're also beginning to reset what their priorities are as a result of that. And so this is what our surveys are telling us, is that there is a mood of sort of reflection going on. However, there is a tone of certainty, and the certainty is that things are going to look different in the future. Even when we hopefully are looking at COVID in the rearview mirror, there's still going to be structural changes that are lasting. And what those structural changes are going to be born out of isn't necessarily that we're all going to conduct our life over Zoom and everybody's going to work from home. But is this structural change that employees are going to exercise more choice over how they work. And this is something that is important not only for employees to be able to thrive, but it's also important for organizations, because what we know tried and true is that in order for organizations to have good engagement with their employees, there is one thing that they need to do and that one thing that they need to do is build trust with their employee base. And what better way to build trust than to let them have autonomy over their work process, of course, within certain guardrails. And so that is the structural change that we see coming, is that no longer are organizations going to be bound between the nine to five of the workday, because that was an antiquated sort of arrangement that was put in place based on a work structure that doesn't exist anymore. And so what is going to happen in the future is that organizations are going to plan to make this more autonomous workforce. And what that means is that where they place their people around the country could change how they use their space, could change and how they design and insert experience into their space is going to change. And so these are all the core truths that we're not exactly sure what the end result is going to be. But we know that these are the core truths that are guiding sort of decisions in the future. And that is what we are going to be eagle-eyed in tracking over the next, and this isn't going to happen overnight, it's going to happen in the next six, 12, 18, 24 months. Because right now the reality is people are working from home because we're in the middle of a pandemic and we need to. But as sort of we get through a vaccine, we get to the other end of this, and we are able to see observable trends in work behaviors. That's when we're going to be able to start to make long term decisions about what the future holds.

## **Spencer Levy**

So, Julie, let me stay with you for just a moment, because I want to get right to the heart of the question that is the title of today's presentation. We heard from Mark about the economy. We're in the soup, at least for the next six, eight months. Hopefully it'll get a lot better after that. We heard from you talking about how office occupiers are not certain, but likely to pull back more work from home, more regional changes, urban to suburban. What does all of this mean to financial service companies specifically as distinct from, say, tech firms, oil and gas or other industries?

## **Julie Whelan**

Yes, it's an interesting question. And I grew up in the financial services industry, so I worked there for a decade before coming over to CBRE. I can very clearly remember being in the thick of the financial crisis and really learning as I went through that process. I think that what was true to me coming out of that and what I have observed about the financial services industry over the last decade is that they are you are all way ahead of the game when it comes to efficiency in the way that you operate your space, because that was a cost lever that you were able to pull, was to get much more efficient in the way that you planned for your space occupancy. Now, what that means is that I think that over this last decade of

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growth, we have gotten to the point in many cases where efficiency almost was reaching the threshold of sort of being unproductive. So we were sort of inserting efficiency at the expense of being productive and keeping people happy in our space. And so those cost levers that we were able to so easily pull every time somebody asked for budget reductions were getting harder and harder to try to figure out. And so what I think this means is that we are all of a sudden through this new world that we're entering into these new work styles, this new recognition by organizations as to sort of what the future holds. They're now unlocking a whole element of efficiency because efficiency no longer has to be delivered anymore. By how many seats can you get into one location, which is what it was. But now efficiency can be delivered in terms of the utilization of your space. Right. So you might not have everybody coming into your space every day, eight hours a day. And guess what? You didn't before COVID either. But now you can plan accordingly and insert more space sharing insert more collaborative space techniques in order to get better utilization and a bigger bang for your buck from the space that you are engaging with. So I think we're unlocking a new era of efficiency for financial services clients that is very different than other industries that are sort of taking bites out of this apple right now.

## **Spencer Levy**

Thank you, Julie. Let's turn back to you now, Mark, because I want to go into the category of the known knowns, the known unknowns and the unknown unknowns. And I would say the pandemic certainly falls into the unknown, unknown last category. But, Mark, we have some certain open items that we do. The known unknowns related to politics and the known unknowns have to do with the Georgia Senate races. And as we discussed in the precall, the Brexit may be a hard Brexit after all. What do you see happening politically and what will be its implications for the US and broader economy?

## **Mark Zandi**

Yeah, that's Caspar Weinberger, wasn't it, wasn't he the..?

## **Spencer Levy**

Donald Rumsfeld, yes.

## **Mark Zandi**

Yeah, Donald Rumsfeld. How can we forget? Yeah. Gee whiz. That's what happens when you turn 50 and I'm 60.

## **Spencer Levy**

You also get a smoker, though it's not all downsides.

## **Mark Zandi**

I'll take that any day. Well, not the most likely scenario. Obviously, there's lots of scenarios here. The most likely scenario appears to be that the Republicans will maintain control of the Senate, that at least one of the two Georgia Senate races will go Republican. And that means it's either 52 48 Republican or 51 49 Republican senator majority for Republicans than in the previous Congress, but still a majority. If that's the scenario, if that's the case and again, I think that's probably most likely, then I think we will get one fiscal let's call it rescue relief package through. If not in the lame duck, then certainly soon after Biden is inaugurated as president, deficit financed. The debate right now is what size? Probably around the nine hundred dollars billion package. We can talk about what might be in that. But that's I think that's likely. And that's built into my baseline view that we will be able to avoid recession in the near term and that the economy will kick into a higher gear on the

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other side of the vaccines by this time next year. There is a possibility, though, that both of those races go Democratic there, if you're looking I don't know how much weight we should put on polls, but you look at the polls, by the way, I have I have an election model based on econometrics. And it did a lot better than the polls, the electoral college level. I think I have a business for the next election that I'm going to explore. But anyway, there is a possibility the Democrats win both. And if that's the case, then, of course, 50 50, the tie would be broken in favor of Democrats because Kamala Harris would be the tiebreaker. She's going to be V.P. In that case, then I think we'll get that nine hundred billion dollars at least in fiscal relief. And pretty soon after some time in late spring or early summer, we'll probably get another piece of legislation that will be designed to try to get the economy back to full employment a lot more quickly. Probably in that case would have to be under reconciliation. So it can't be deficit financed. It's got to be paid for over a 10 year period. And so that might include some tax increases then to help pay for infrastructure spending, spending on education, health care, that kind of thing. And my guess is they probably get a package through about a trillion, trillion and a half, something like that. And we get that in the middle of 2021. That's not in my baseline, but that is a possibility, in my view, in the current environment with very high unemployment, millions of people that are unemployed and have permanently lost their job with inflation below two percent, the Federal Reserve's target inflation expectations uncomfortably low and most importantly, with the Federal Reserve telling us point blank that they're going to keep interest rates at zero until we're back at full employment. In that context, I think it makes a lot of sense for fiscal policy to remain very aggressive. Deficit financed, get us back to full employment as fast as possible. And then once we get there, then you pivot to address our long term fiscal situation through spending restraint and also some tax increases.

## **Spencer Levy**

Do you think the nomination of Janet Yellen makes that more likely?

## **Mark Zandi**

I think she's all part of what I just said, right? I mean, I think she's going to be the secretary treasury, she's going to lead the Biden policy team. And I think her perspective is very similar to what I just expressed. And by the way, I think Jay Powell at the Fed would be all over that. He's been saying publicly any chances he's gotten to say, you know, that it's hard for policymakers, fiscal policymakers, Congress and administration to air on the side of doing too much support for the economy, much, much, much bigger risk of doing too little. But that that's an alternative scenario. Less likely the Democrats would have to win. The final thing I'd say is because the government in either scenario is very balanced. Nobody has, you know, a mandate here. I do think that gives moderates a stronger voice, both on the Republican side and the Democratic side. So it will make the fringes of both parties, the progressives and the conservatives, more marginal. Their voice isn't going to be stronger. And you can see it in this recent negotiation in Washington over the nine hundred billion dollar package. That's a bipartisan package from Senate Republicans and Democrats, voices in the middle. And so one of the, you know, obviously depends on your perspective. But if you're interested in, you know, kind of a middle of the road kind of policy, this kind of government that I'm describing is the most likely to get you that kind of outcome.

## **Spencer Levy**

Well, thanks, Mark. So, Julie, to turn the question out to you, using the same three things, the known knowns, the known unknowns, and then the unknown unknowns. And this goes back to a debate you and I have been having about how much weight should we be giving to surveys we are seeing today? And then I really want to just know, what do you think is going

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to happen with work from home, with the implications to productivity? And then I guess I'll put it in very simple terms. Is the future more like the past than we think?

## **Julie Whelan**

So from my perspective, I think that survey results do have to be, you say, a grain of salt. They do have to be tempered in terms of our belief. I think that they are directional in nature. I think that they're very aspirational, meaning that it's much easier to make a multiple choice answer than to actually execute that answer. And I think that when we are in the middle of a traumatic situation like we are in now, that our response is going to be very different than it is when we're coming out of it. That being said, I am a believer that there is a structural change underway and has nothing to do with COVID. It has everything to do with I think that people are finally listening. It's not even accelerated trends. It's just that people are finally listening. And when we have power of an organization behind us, that that is when real change can happen. And so I think that's where we're at right now. In terms of what that means for the future, I personally wish that we would totally eradicate work from home in that entire phrase, because I don't think that it has any relevance. I think that the reality is that people just want better integration between their work in their life and going into one location that is predetermined by somebody else five days a week, even when you don't have specific needs to meet somebody is an antiquated thought process and it reduces morale before we even have a chance to motivate people. So I think that what that means is that people want getting back to that word that I use all the time choice over how they work. And what that means is that they are going to choose the office sometimes. Absolutely. They're going to choose home sometimes and they're going to most often choose third places. And those third places could be anywhere where you have a mobile device, you have quiet and you have a Wi-Fi connection. Right. That could be a hotel lobby. It could be a coffee shop up the street. It could be an airplane. That's where I get my best work done sometimes. And the reality, though, is waking up to this fact that these three places are what is now making up the ecosystem of what work is. Place is no longer a singular entity. Place is now made up of not only the physical environments that we conduct our work whether they be company provided or not, but also the digital landscape that we are now engaging in. I have heard one company go so far as to say that their headquarters is actually their digital network, that is their headquarters, because by the very nature of using the word headquarters you're sort of putting out a vision that there is one place that there is more that is more important than other places around the country, around the world. And that is not necessarily in this environment of a distributed workforce where we're getting talent from all the nooks and crannies of the country in the world, a vision that you want to place out there. And so I think that really redefining sort of what place means to us as an organization or to you as organizations is really what the future needs to hold.

## **Spencer Levy**

Well, Julie, as you know, we have one minute left and I will give you the last word. But you know that my favorite topic to debate, including with many of our financial services clients on this call, is the difference between productivity and efficiency. And I think productivity wins in the end. I think there was a quote by the Harvard Business Review. It says, great companies focus on productivity, not efficiency. The challenge is they can't measure productivity very hard to measure, at least at its best. But don't you think that's the best argument for why the future of the office is bright or do you disagree?

## **Julie Whelan**

A lot of the corporate real estate professionals that are clients that are on this phone, they still report up to cost centric organizations. So the CFO, the C suite, that the easiest metric to

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measure is cost. And so that is going to be for the near future, at the very least, a really important way to look at the world. And we don't want to spend money for money sake. We have to prove the value of the money that we're spending. And so, yes, productivity is always going to be important. However, we got to balance it with efficient and effective space and in portfolio delivery. And so the more that we can figure out how to measure productivity and how our workplaces drive that productivity, the better positioned we all will be to argue the case for the physical presence.

## **Spencer Levy**

Thank you, Julie. Well, we're out of time. And I want to thank once again Mark Zandi, who, notwithstanding our disagreements, I truly believe is one of the truly great economists on the planet. And it was an honor to have you here today Mark, thanks so much for coming in. Julie, one of the great thought leaders in occupier research not just here at CBRE, but increasingly globally as a well done Julie and Mark.

With thanks to our guests. Thank you for joining our call. We'll be back one more time in 2020. So please join us after the holiday. For more on our show, check out [cbre.com/TheWeeklyTake](https://cbre.com/TheWeeklyTake). We'd also love your feedback. So if you found us on Apple podcasts, Spotify or another platform, please subscribe, rate and review us wherever you listen. Until next time, I'm Spencer Levy. Happy holidays. Be smart. Be safe. Be well.