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ARTICLE



Five Commercial Real Estate Trends to Watch in the Wake of COVID-19

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Timothy Little, chair of Katten's Real Estate department, and Scott Vetri, chair of the New York Real Estate practice, authored an article outlining several trends in the commercial real estate (CRE) space that have emerged and evolved during the COVID-19 pandemic. Featured in *The Real Estate Finance Journal*, which is a Thomson Reuters publication, the article highlights several pandemic-related challenges and discusses potential steps for property owners navigating the shifting CRE industry.

Among the changes ushered in by the pandemic is the rising demand for more short-term and flexible lease structures, particularly with smaller deals and current leases. However, the article explains that the percentages of new leases with greater term lengths are consistent with pre-pandemic levels. It notes that the full impact of COVID-driven changes in working and space use may not be realized until larger, existing leases are scheduled for renewal or until there is greater clarity regarding the effects of the remote working landscape. Regarding other pandemic-related provisions, the article discusses the need to amend force majeure definitions and assess the scope of such clauses.

Another trend is growing pressure to design a new type of office as companies increasingly consider flexibility as a key factor in recruitment and retention, and in turn, explore various ways to entice employees back into the office now and well after COVID-19 passes. The article explains that landlords will need to work with existing and prospective tenants in reimagining office space and tailoring the space to suit specific purposes and attract employees in the long-term. While noting that there are suggestions that the growing prevalence of co-working and flexible spaces can address the changing office environment, the article indicates that there is uncertainty whether this property market will pick up steam.

The article further highlights the increasing impact of carbon emission laws on CRE owners and developers – which can incur costs ranging from retrofitting buildings with improved ventilation

systems to carbon-related fines – and how such costs can color lease negotiations. Growing climate hazards, such as floods and hurricanes, also continue to pose threats to CRE assets across the globe. Furthermore, the article notes that property managers face new challenges arising from tenants' vaccine mandates, and that landlords must take steps to inform outside contractors about vaccination requirements and communicate with tenants.

However, despite challenges springing from the pandemic, there are CRE opportunities. The article notes that COVID-19 has not diminished demand for data center, industrial, life sciences, logistics and multifamily properties. And while there is the question of whether demand will lead to overheated and overvalued markets, the CRE industry largely has been resilient during the pandemic, according to the article.

A version of the article first posted on Katten's website in November 2021.

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