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Profimex Market Research Update – May 5, 2020

CRE's Projected Recovery Has Morphed Into a Swoosh Shape

Many real estate advisory firms are updating their customers and the overall community by issuing reports and conducting regular webinars. Last month, CBRE predicted that the overall US economy will start to see growth as early as 2021, while the commercial real estate industry will have to wait 12 to 30 months. This view has now changed to a more Nike swoosh shape recovery for the real estate industry, described in a more recent Webinar. The recovery time will be different per asset classes with industrial, recovering within one year and multifamily within one-and-a-half years. The office and retail sectors on the other hand will need more time, two and three years, respectively. Interestingly, the speakers predict a favourable trend in retail, as result of limited international travel. The money normally spend on vacation will be spend on products instead, such as new cars. With regards to the overall economy, many economists have backed away from early V-shape recovery predictions. Richard Barkham, global chief economist and head of Americas Research at CBRE, still believes in a speedy recovery and supports his view with historical downturns and recovery rates, such as the recovery after the Spanish flu in 1918 and the global oil shock in 1973.

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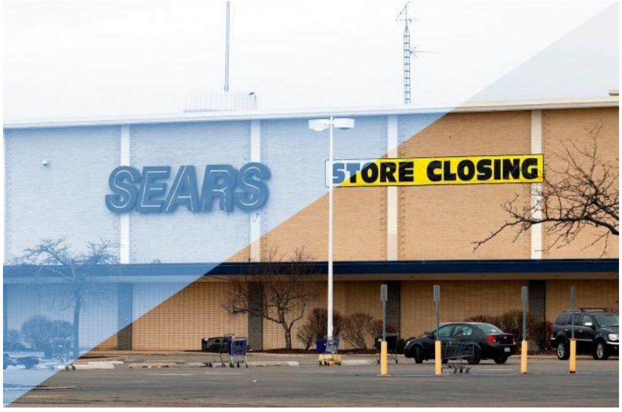
Half of mall-anchored department stores could close within a year



A report, published by Green Street Advisor, predicts that more than 50 percent of department stores anchoring shopping malls could permanently close within the next year. Green Street Advisors is an independent research and advisory firm, focusing on the commercial real estate industry in North America and Europe. Distressed anchor tenants may impact mall operators and owners in the following ways: Anchor department stores are themselves a major revenue stream due to the size of the rented space. Loosing anchor tenants may also impact the overall foot traffic of the mall, which may trigger co-tenancy clauses. These lease agreement sections allow smaller tenants, in case of anchor tenant closures, to renegotiate rental rates and sometimes even to break leases early. This common principle is based on the added foot traffic to smaller stores, by customers visiting the mall for its anchor tenant in the first place and in additional visiting other, smaller tenants spontaneously. Loosing those customers impacts the smaller tenant's business, which the tenant wants to protect by negotiating co-tenancy clauses. When other tenants vacant their spaces or successfully renegotiate reduced rental rates, mall operators will face an increased pressure in an already challenging environment and may be forced to permanently close the mall.

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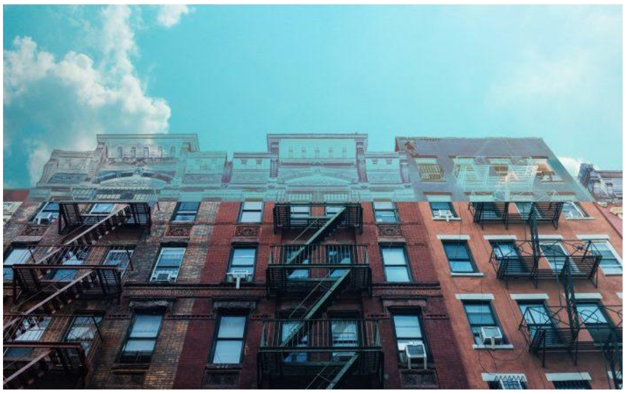
What rent shortfall? Nearly 9 in 10 resi tenants paid in April



A survey, conducted by the National Multifamily Housing Council found that by April 19, 89 percent of the 11.5 million rental apartments surveyed paid the full or at least part of their rent. This finding suggests a much brighter scenario than what was earlier predicted by the New York Times. The newspaper warned that 40 percent of renters in the US would be unable to pay rent in April. However, one should note that the 11.5 million rental apartments only represent a portion of the 43 million households of US and that about 30 million people have now lost their jobs in just 6 weeks because of the corona crisis. Additionally, collection rates in communities, located in less affluent areas, have reported lower numbers.

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