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Profimex Market Research Update – April 16, 2020

CRE's Potential Winners and Losers in a Virus-Hit World

The real estate sector that will experience the biggest windfall emerging from the COVID-19 crisis is the industrial sector, more specifically warehouse property owners due to the continued rise of ecommerce, and high demand to ship goods to urban areas that are under quarantine. This can be seen due to companies, like Amazon and Walmart, that operate in distribution and logistics have begun hiring tens of thousands of additional works to fulfil an overwhelming rising in ecommerce demand.

Additionally, there has been an increased demand in the data center sector. This is primarily due to data center locations qualifying as an essential business status and the higher amount of people using the internet and businesses consuming cloud computing.

The real estate sector that will likely experience the largest decline will be retail, more specifically regional mall owners. Prior to the COVID-19 crisis, retail stores had seen a general decline in sales and activities as more people switched to ecommerce shopping. The biggest hit will be to regional malls that have shuttered their stores as most are non essential businesses and individuals are at home practicing social distancing.

(Read)

Airbnb Gets $1 Billion Loan, Bringing Coronavirus Funding to $2 Billion

In addition the $1 billion dollars recently raised by Airbnb, it has once again tapped the financial markets and raised an additional $1 billion dollar loan from institutional investors. The term of the loan is for 5-years at a rate of 7.5% plus LIBOR. "All of the actions we have taken over the last several weeks assure that Airbnb will emerge from the storm of the pandemic even stronger, regardless of how long the storm lasts," co-founder and Chief Executive Brian Chesky said.

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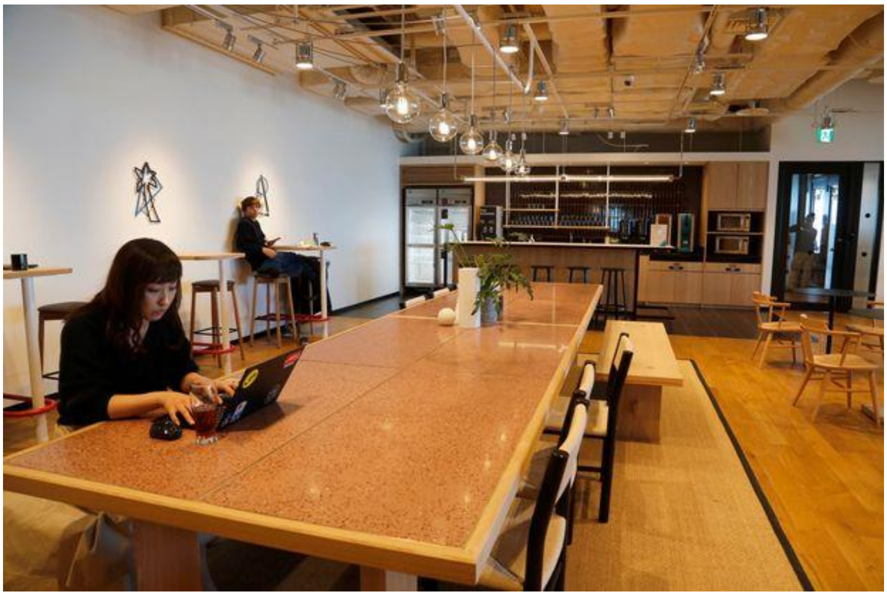
Co-Working Envisioned the Office of Tomorrow. Suddenly It Feels Like the Office of Yesterday



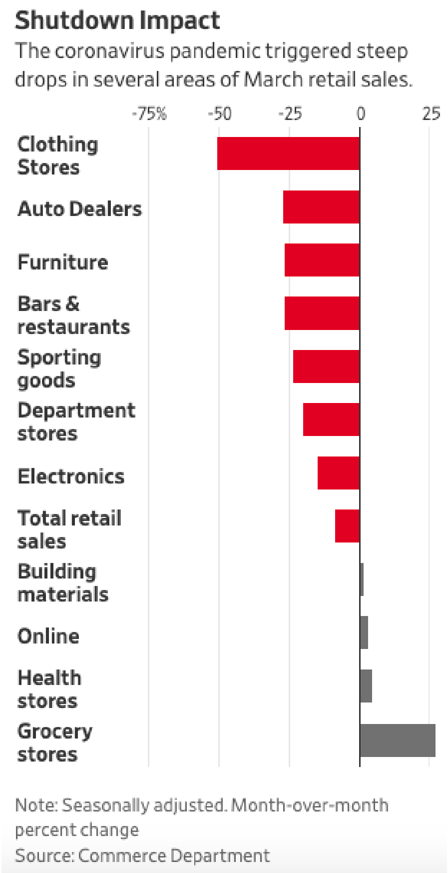
Till recently, the future of office space seemed to be moving towards shared office space. Many are wondering if the businesses model of co working companies will be able to stay afloat after the COVID-19 crisis. That is, take out long-term leases and leasing that space on a shorter term for higher rent prices.
With the pandemic forcing more people to work from home and many tenants unlikely to renew short-term leases, co-working companies like We Co.'s WeWork and peers have been forced to lay off workers and try to restructure leases to stay afloat.
Most of these co working companies were losing money prior to the current crisis, therefore, the recent economic downturn has only added additional pressure.
Real estate services firm CBRE Group Inc. predicted co-working could account for 13% of all office space by 2030, up from just less than 2% last year, and other projections went even higher. Developers like Tishman Speyer and Hines have launched their own ventures. Rob Speyer, the CEO of Tishman Speyer, said co-working "may be the biggest disruption to real estate since the invention of the elevator."
However, today, the co-working companies are worried about how to manage a near term shock to renewal and current tenants paying for the space.

(Read)

Coronavirus Closures Froze Swaths of U.S. Economy in March

As stay at home and social distancing measures too place in March, large parts of the US economy froze. This has caused Americans to cut retail spending by a record amount and the country's industrial output to plunge at the steepest rate in more than 70 years. Seasonally adjusted, total retail sales in March fell by 8.7% from the previous month. This is the biggest month decline since the Commerce Department began recording the figures in 1992.
Additionally, the Federal Reserve reported that industrial production fell a seasonally adjusted 5.4% in March. This is the biggest monthly drop

since 1946. Across the entire economy, the sharp contraction has been unprecedented with many firms and experts unsure how deep the effects of the shutdown will be. While prior to the COVID-19 crisis, the US was entering its 11th year of economic expansion, millions have no applied for unemployment.



Above, is a graph depicting the change in consumer spending in March. As expected, Grocery stores saw the largest jump on sales at 26.9%. Restaurants and bars saw sales drop 26.5% from February as establishments closed or switched to delivery only. Sales at clothing stores fell 50.5%, and motor vehicle sales decreased 25.6% from the prior month. Consumer spending is the main driver of the U.S. economy, accounting for more than two-thirds of economic output

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