

Profimex Market Research Update – July 15, 2020

Sam Zell: U-Shaped Recovery Will Likely Begin In The Fall

Sam Zell, a prominent real estate mogul, predicts that the US economy will experience a U-shape recovery, with an upswing starting around fall of this year. During a webinar for NYU, Sam explained that, "At best, and most likely, we're going to see a U-shaped recovery," he said. "We've basically improved somewhat, I think we're going to have kind of a slow period improving toward the end of the year, that's very different from a radical V-shaped, 'Oh, we were hurt and now we're better.'" While the economy is faring better than most had anticipated, he believes that much of the recovery will depend on the availability of a vaccine. Additionally, Sam doesn't believe that unemployment rate will drop below ten-percent by year end.



Regarding new interesting transactions, Sam explained that he doesn't see much deal activity occurring today since there is a disagreement on pricing amid the pandemic. He does believe that during a distress market, the key to turning an opportunistic profit isn't investing in a particular asset class, it's about investing in a good deal. "I might not be enthusiastic about hotels right now, but give me the right price and I can do the discount in my head and try to figure out if I'll be alive when the discount returns," he said.

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Biotech Properties Draw Billions of Dollars as Other Real Estate Languishes

While the COVID-19 pandemic has hurt most real estate asset classes, it has acted as a tailwind for real estate investors who own properties related to biotechnology, pharmaceutical and other life-sciences businesses. Prior to the pandemic there was already strong demand for biotech real estate. Additionally, while many businesses have been able to transform communication digitally and have workers be remote, it is much harder to replicate remote working with lab science. As a result of the increased demand, there has been billions of dollars flowing into this sector, both from the public and private sector. For



example, Alexandria Real Estate Equities Inc., the largest life-sciences real-estate investment trust in the U.S., last week raised \$1.1 billion through a new share offering. The company explains that it leased more than one million square feet in the second quarter with an average rental-rate increase of 37%.

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Commercial Real Estate Market Struggles as Residential Sector Rebounds

Residential real estate is experiencing a seemingly swift recovery. Commercial real estate, which includes office and retail properties, continues to lag as demand is still down from pre-COVID-19 levels. This is resulted from people shopping more at home and less at physical stores, and a continuing trends towards working from home. National Association of Realtors chief economist Lawrence Yun explains



that Only 19% of commercial property managers in the study reported that rents were being paid on time, while nearly 75% reported that they had tenants who were unable to pay or struggling to make rent. This data comes from a **NAR survey** from June 24-26 of more than 2,300 members.

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