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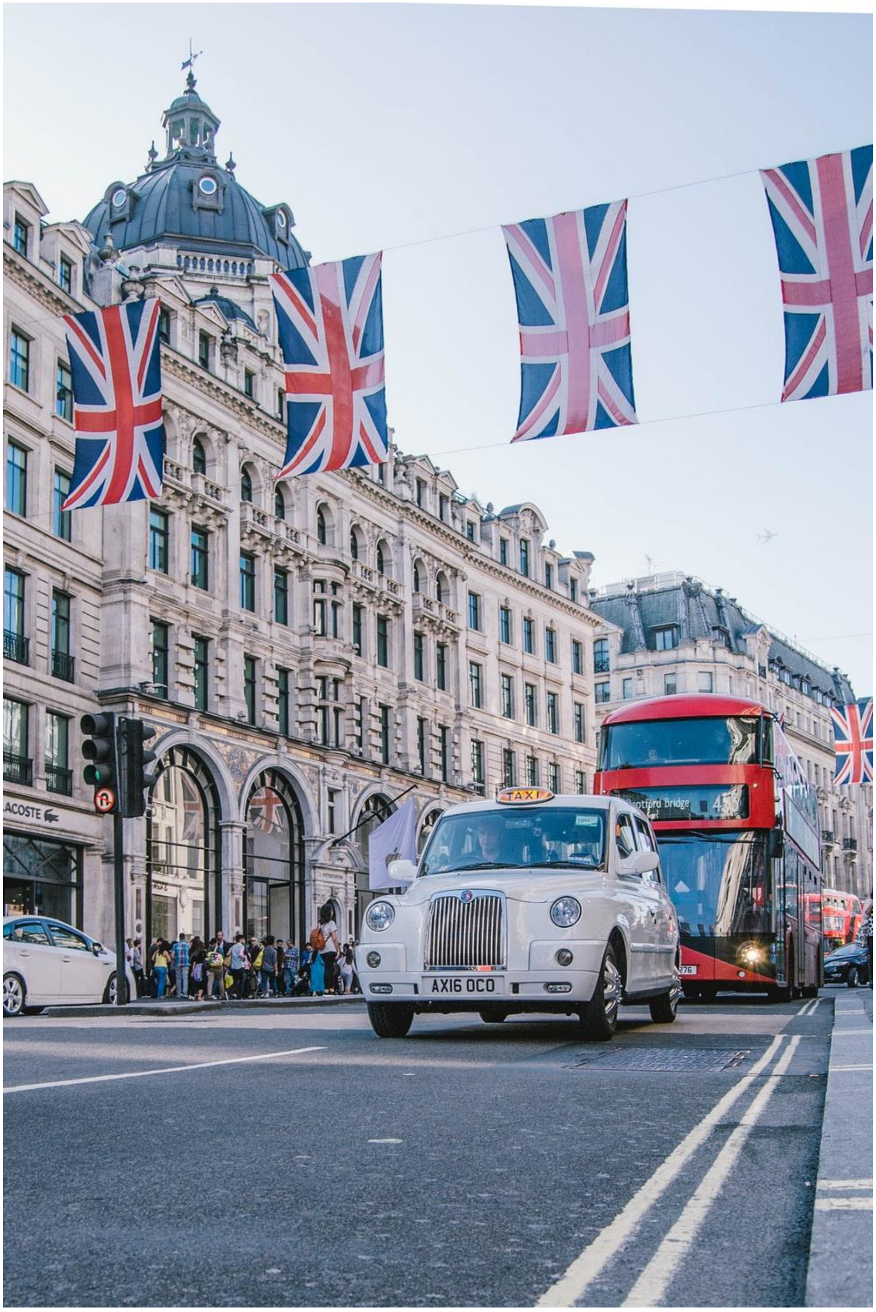
Profimex Market Research Update – June 1, 2020

Investors remain optimistic about UK office and logistics markets



According to a recent survey, published by Savills, 26% of the respondents are planning to resume their acquisition strategies in the second quarter of 2020, while additional 41% are planning to resume acquisition in the third quarter of 2020. This indicates that the scope of the negative impact on the investment market will be reasonably limited. Investor sentiment was strongest towards the business space market, namely industrial, logistics, and office. This trend is noticeable by the €402.4m transaction volume of industrial and logistics asset and by the €456m of office transaction volume that was recorded between mid-March to the end of April across the UK, excluding London. While there are still transaction executions, most transaction have delayed or been paused until investor inspections, surveys and valuations can take place.

Interestingly, while most survey participants stated that they would need a discount to gain internal approval for the transaction, very few properties, except for a few sale and leaseback transactions, sold at a discount. Mainly, private equity firms and UK funds appear to need the least discounted purchase price, with 50% and 48% of private equity firms and UK funds, respectively, mentioned a required discount of only 1-10%.

The survey also found that 95% of the respondents claim they have capital ready to invest in industrial, logistics and offices, highlighting the strong investor appetite for space investments and the amount of equity, waiting for deployment.

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CRE Economists Think Current Recession Won't Be as Bad as the 2008 Crisis

The Urban Land Institute conducted a recent survey, revealing that nearly 40 real estate economists from leading real estate organizations predict that there will be a $275 billion decrease in real estate transaction volume in 2020 due to the Corona pandemic. This would mean that the impact on real estate markets and values would be less severe than the 2008 global financial crisis. Further, the survey participants expect transaction volume to rise over the next two year, creating a healthier overall market than during the last recession. "Real estate economists expect that while the top-line economic impact of COVID-19 will be much worse than the global financial crisis, US real estate market fundamentals and values will fare much better," said William Maher, a leading member of the Urban Land Institute, in prepared remarks. "Only retail and hotel are expected to suffer a worse outcome."

The institute believes that real estate professional should feel some relieve, as economists share a relatively positive view of the future. According to the survey, commercial real estate prices will fall by only 7% during this year, comparably better than the 13.6% and 20.8% decreases in 2008 and 2009, respectively. Another positive signal is that the professionals believe that there will be more available debt financing when compared to 2008's financial crisis. Asset class specific, the survey participants predict apartment growth in 2020 to decrease by 2% and hotel revenue per room to decline by 5.3% in each of the next three years. Another heavily impacted asset class, retail, will drop by 3.1%. On the upside, offices will face only a 1% decline.

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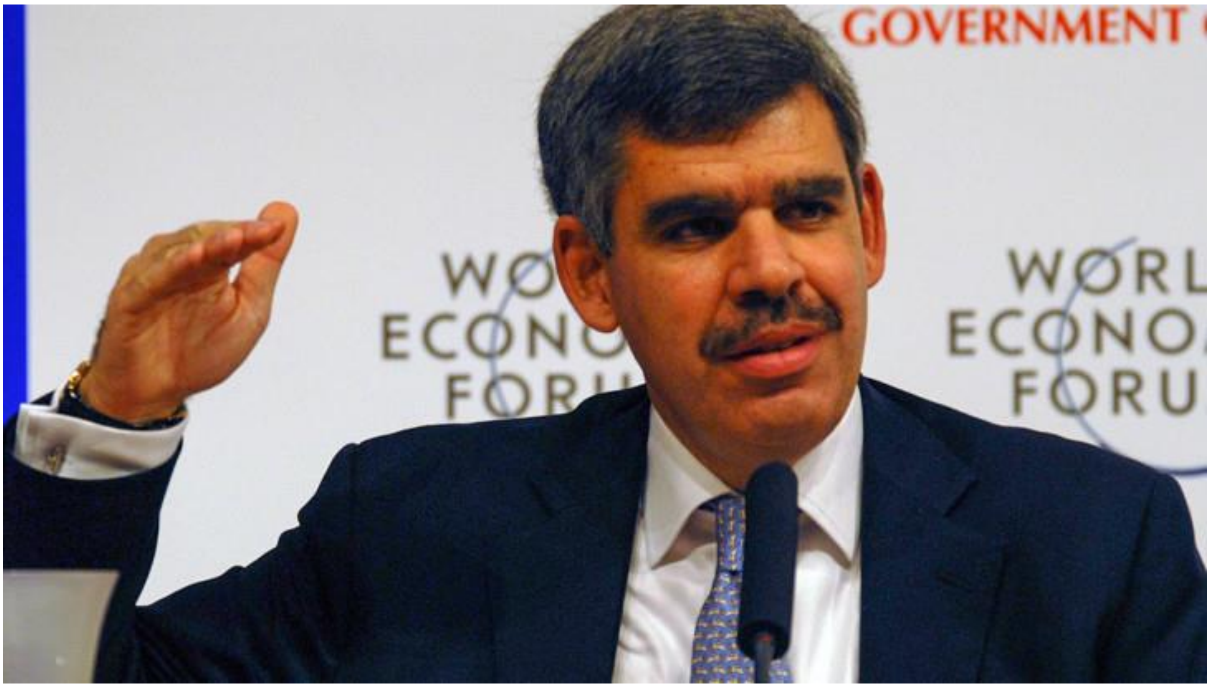
El-Erian Sees Worse Recession Ahead



Mohamed A. El-Erian, the chief economic adviser at Allianz, the German multinational financial services firm, has recently presented an analysis of the U.S.'s real GDP on the basis of data, published by the U.S. Bureau of Economic Analysis. The graph El-Erian used shows GDP growth rate from the previous quarter. Not surprisingly, given that we have experienced the longest market cycle in history, the GDP growth rate up until the Corona Pandemic outbreak has been positive. However, for the first quarter of 2020, GDP has declined over 4% compared to the fourth quarter of 2019. Adjusted for inflation, the U.S. economic output has substantially declined and El-Erian believes that the decline rate in the second quarter will be 30-40% more severe than the first quarter contraction. The reason for the strong contraction is the reduced consumer spending, which the U.S. economy heavily relies on.

There are several economists, who believe that the economy will recover in a V-shape, meaning that the economic will bounce back immediately after reaching the floor. Not so El-Erian and Jerome Powell, who believe that it may take the economy until the end of 2021 to recover.

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