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Profimex Market Research Update – June 15, 2020

'Hub-And-Spoke' Office Model Gains Traction With CRE Investors

Many companies that are choosing to bring back their employees to the office are considering how to bring them back after employees have been working from home for a couple of months already. As a result, companies have begun to implement of a hybrid model that offers workers greater flexibility; whereby, workers would be allowed to work in the office and at home. This could help reduce square footage in expensive urban markets. As a result, industry speculation suggests that offices won't return to their former density.

This new hybrid model is being referred to as a hub and spoke model and will likely greatly benefit the suburban office market. "The places that will benefit will be in the suburbs, and that's what we're advising a lot of our clients right now — to look at suburban office," Transwestern Executive Managing Partner Steve Pumper said during a Bisnow webinar June 9. Others believe that while this trend may benefit the suburban office market, in the long-term urban markets will continue to be attractive.

(Read)

Are Renters Really Set to Move to the Suburbs?

The impact from COVID-19 has created new trends in the real estate market. Specifically, it has increased the use case and demand for suburban multifamily. During a time of spreading deadly virus, people want greater space which is found in the suburbs. Additionally, a demographic shift of aging millennials that begun a few years ago is accelerating the shift.

Now that millennials have started growing up, those suburban apartments could enjoy even more robust demand. The population of people in their 30s will increase by 7.1% by 2025, while the rest of the population will only grow by 3.8%, according to The US Census Bureau.

"The aging of the millennial population into their mid-30s will provide a tailwind to suburban demand, as more and more young couples move out of urban areas in search of more space and better school districts as they start to grow their families," PGIM Real Estate said in the report.

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A third of America's malls will disappear by next year, says ex-department store exec

By 2021, Jan Kniffen, a current retail consultant and former exec at The May Department Stores, expects that a third of America's malls will be closed. Additionally, prior to pandemic, retail had already seen an onslaught of store closures from ecommerce. Jan explains, that the acceleration in store closures is a result of the COVID-19 pandemic. Previously, he expected that a third of malls would close by 2030. "The mall has been losing ground for a long time, now it's losing ground faster," said Jan Kniffen, "I expect we are going to see at least 20% of the [inside of the] mall go. I expect to see a third of the malls go a lot sooner than we thought," he said Wednesday on CNBC's "Squawk Box."

From the estimated 1000 operational malls in the United States today, most are categorized as B,C,D rating; meaning that they bring in lower sales volume per square foot than an A rated mall. Such a mall would typically bring in as much as $1,000 per square foot, while a C rated mall may bring in about $320 per square foot. The malls that are not A rated as the most at risk for store closures.

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