

## Profimex Market Research Update – June 17, 2020

### COVID-19 Will Accelerate Property Repurposing

Across the real estate industry many commercial properties are beginning to be repurposed for a post COVID-19 world. Newmeyer Dillion partner Mike Krueger explains that, “We’re going to see very creative developers come in and repurpose those properties for their next use,” Krueger says. “At this stage, we don’t even know what the best use of some properties will be.” However,



some properties are already starting to be repurposed such as malls for medical use, such as a hospital or medical office. Krueger continues to explain that “It’s going to have elevators and escalators,” Krueger says “Maybe an abandoned mall is a perfect opportunity to put a nursing home or some assisted living facility because you already have all these access points.”

In addition to repurposing malls, office spaces may be repurposed as well. The reason is because there are many companies, such as Twitter, that are allowing workers to work remotely indefinitely.

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### As Tech Firms Rethink San Francisco, Silicon Valley Stands to Gain

Over the last decade, San Francisco has outperformed Silicon Valley in attracting new technology firms, entrepreneurs and younger employees, who tend to prefer the city’s lifestyle and attractions to the suburbs in Silicon Valley. While the impact of COVID-19 has hurt office demand in both cities, it has been far worse for San Francisco. Commercial real-estate firm CBRE Group Inc. said the volume of tenants looking for space has fallen about 56% in San Francisco, compared with about 32% in Silicon Valley, between the end of February and the end of May. Demand in San Francisco has been especially hard because it



relies on startup and unprofitable technology companies as office space users. Companies such as Uber and Airbnb have been hit hard by the crisis, and, in turn, this has impacted the office market.

On the other hand, Silicon Valley, is more established with Alphabet and Apple having their headquarters situated there. “Most of the sublease space in Silicon Valley has more to do with companies upgrading to better-quality space than it does with companies no longer needing space because they’ve reduced their size,” said Colin Yasukochi, head of CBRE’s new Tech Insights Center.

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## New Industrial Demand Won't Be Met for Years

Many experts in commercial real estate explain that the impact of COVID-19 has spurred additional demand for ecommerce in the amount of an additional 500 million square feet. However, Kurt Strasmann, executive managing director of CBRE's Orange County and Inland Empire operations as well as CBRE's pacific southwestern functional industrial and logistics market leader, tells GlobeSt.com that, "It will take years. Infill markets are already built out with a very high level of occupancy. This means developing new product will be necessary, which is not easy to do in infill markets, such as Los Angeles and Orange County. It is therefore my and our firm's belief that areas such as the Inland Empire will continue to thrive with new development for years to come due to the availability of buildable land."



The markets with the highest demand for additional industrial space, such as Southern California, are those that have limited supply for new developments. Therefore, the industrial sector will continue to experience strong demand in the coming years.

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