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Profimex Market Research Update – July 2nd, 2020

Sam Zell is Ready for a Big Distressed Real Estate Deal

The billionaire investor whose firm is sitting on $3.4 billion in dry powder believes that it could take another three to four months before his firm could start purchasing distressed assets. Zell investment thesis is not to buy markets, but to buy specific deals. The firm is therefore looking opportunistically for all asset classes, except for retail properties, which according to Zell is “still very much of a falling knife”. Zell further expects distressed loans not to be extended too frequently and banks are rather looking for opportunities to “clean their books”, resulting in more distressed assets coming to the market. Zell also believes in the future of office buildings. He believes that “we’re social animals. We want to work together. Nobody’s figured out a way to motivate by modem. When it’s all said and done, if you want to run a business, if you want to be successful, you need to create contact between the people, and that’s what office space provides.”

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Can American Skyscrapers Survive the Coronavirus?

Fox Business News asks whether companies will return to high-rise offices in densely packed metropolitan areas or trade the convenience of proximity for a break on soaring rent prices? Bill Rudin, CEO of Rudin Management, believes that there will always be a place for cities and for office space. "People want to be in the cities, even with all the things that have been going on," Rudin maintained. "I think other CEOs want to get their workers back in to work." Rudin is further referring to the 1990s when Downtown Manhattan used to be a ghost city with high vacancies and increased crime rates. A cooperation between the business community and the government succeeded in increasing the number of residents from 10,000 to 70,000 and turn around the negative trend. Office conversations to residential use may be an option if vacancies will be higher in the medium-term.

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Construction Costs Expected to Ease for Apartment Developers

Pre-COVID-19, the strong development pipeline and rising construction and labor costs were the main concerns of residential development investors. Today this situation has changed and there is an additional downward pressure on rents and potential returns to investors. Most experts believe that material costs will decrease the next year, since it becomes more concrete how quickly many of the more than 45 millions lost jobs will return and how many renters will be able to pay market rates for newly constructed apartments. “Contractors will find less and less work in the next year as current projects finish up and owners face financial difficulties and reduced or uncertain demand," says Kenneth D. Simonson, chief economist for AGC. “Overall project costs for developers are likely to be down, or at least to increase much less than appeared likely at the beginning of the year.” This pessimistic view is not shared by all contractors. “Currently our backlog is greater than it was at this time last year so the outlook for the future appears positive," says Marc Padgett, president of Summit Contracting Group, based in Jacksonville, Fla.

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