PROFIMEX®

Profimex Market Research Update – May 18, 2020

Job losses are most vital driver of Europe offices occupier demand

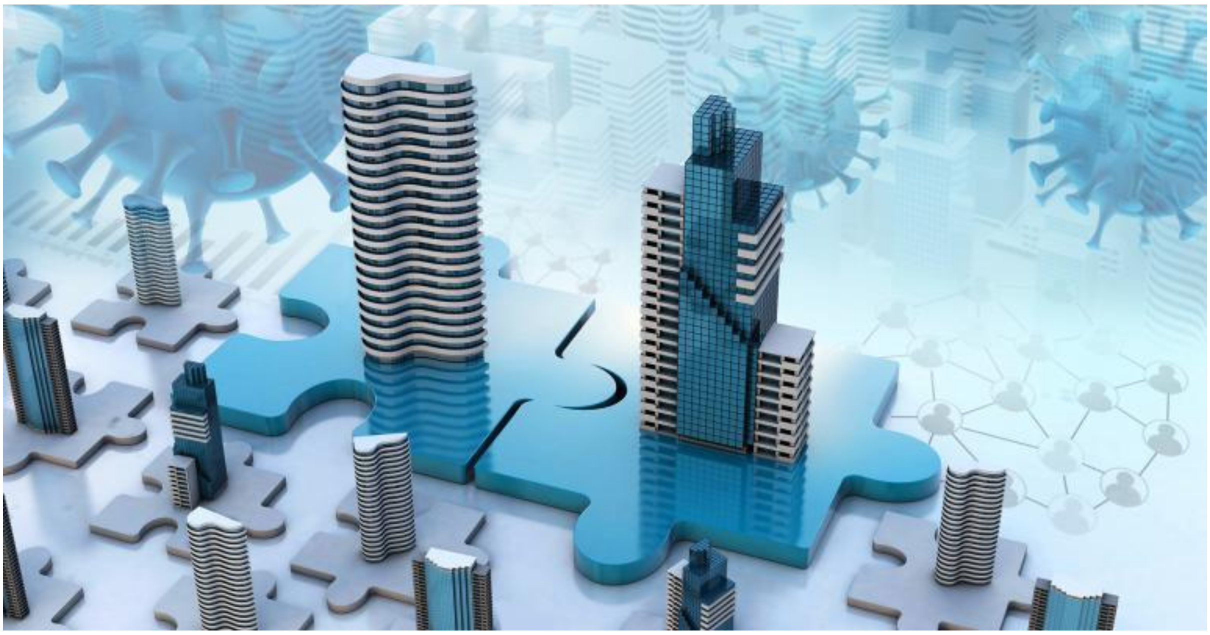
The economic research consultancy, Capital Economics, believes that the most important driver of office occupier demand over the coming years will be the impact of the disruption from the COVID-19 on employment. However, the disruption covered in this article is not the disruption that so many other real estate professionals predict, the increase in home-office employment, but rather the job losses brought about by the COVID-19 pandemic. “And even if working from home becomes more prevalent in the next few years, we think that the most important driver of occupier demand will be […] job losses”, according to the research. Their findings suggest that even if employees will continue to work from their home, tenant demand for space will not be necessarily reduced. Proof for this claim is their analysis on the Italian office space per worker, suggesting that even though the share of remote working has been broadly stable over the past 10 years, office space per worker has fallen. Capital Economics suggests that other factors, such as having smaller desks or hot-desking will influence demand for office space. Such strategies are used by tenants to reduce their rented space, as rental levels rise.
(Read)

Will Shoppers Return to Malls? Early Indications from Simon Property Group Say Yes.

One of the major questions, retail operators and investors are asking is whether consumers will go back to their previous consumption patterns as the US economy reopens. Simon Property Group, the largest retail real estate investment trust and the largest shopping mall operator, voiced optimism in its recent quarterly report. The company has already reopened 77 of its US retail properties as of May 11 and plans to reopen approximately half of its US portfolio in a short period. The overall shoppers’ response so far has been positive during the mall openings and even exceeded the firm’s expectations. It noticed that suburban areas outside major densely populated areas appear to perform better and that consumers are drifting toward medium expensive goods as opposed to high-end one’s. This trend is commonly

understood in the market, as consumers want to be at less crowded placed and tend to spend less during economic downturns and high uncertainties. However, interestingly, Simon notices that much shopping activity occurs overseas and now, with cancelled vacations and less international travel, customers could purchase more goods within the country.
(Read)

What Does It Take to Close Acquisitions Amid a Crisis? Plenty of Dry Powder and a Patient Mindset



CBRE recently published a report that shows how deal volume surged in March and April due to the coronavirus pandemic. "As the coronavirus and resulting economic stress became evident, investment activity predictably dropped, and price discovery will continue to be a challenge until the durability of rent collections becomes clear and liquidity returns," CBRE says. However not all investment firms hold on their capital during this crisis. This article describes how one investment management firm, Chicago-based Harrison Street Real Estate Capital LLC, continues to invest during a time when many buyers and sellers are backing out of deals. Its strategy is a combination of partnerships, skill, capital, and patience.
Harrison Street focuses on alternative asset classes, such as senior housing, medical office and life science and has deep experience in its property sectors, with its long-term relationships and its partners, including 40 health care systems and 150 colleges and universities, in place globally. In times of crisis market participants, such as operators and health systems appreciate to work with firms who have deep knowledge in this field and who have deep pockets, filled with dry powder (liquidity). Further, during downturns and crisis, firms must also handle volatility in the debt markets. Their long-term lending relationship and solid balance sheet equity reserves gives the firm flexibility to structure and execute on deals during crisis. Having over $2 billion in dry powder, the firm can simply close a transaction without any leverage if it is unable to agree on the terms of loan with the lender. This investment strategy is designed to withstand "black swan" events, as the firm is not trying to time markets but rather focuses on long-term, high quality investments with solids demographics.
(Read)