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Profimex Market Research Update – April 21, 2020

Our investment team participated in the Global Real Estate Web Meeting yesterday, hearing from prominent real estate veterans and institutional investors.

On April 20, 2020, Gunner Branson, CEO of AFIRE, and Mary Ludgin,senior managing director & head of global research at Heitman, spoke at lengths about the current real estate environment and what investors might expect to see in a post-COVID-19 world. Below is a short summary of their conversation, highlighting key points related to real estate investing.

Gunner explained that while the current pandemic is tragic, in history, periods after pandemics brings about technological and emerging trends. For example, after the Spanish Flu, technology changed transportation and people switched from using horses to automobiles.

Both believe that, like past downturns, many investment opportunities will be uncovered. Investors will likely focus initial on debt investments and assets with strong cash flow.

Multifamily

While millions have lost their jobs, it's interesting to note that April 2020 collection rates were significantly higher than expectations. For example, amongst AFIRE members, rent collections was, on average, around 90%. While there is still great uncertainty as to what will occur during May collections, industry experts and AFIRE view multifamily as a powerful asset class moving forward.

While in the long-term cities like New York and Los Angeles will rebound, in the near-term opportunities will likely emerge in lower cost growth cities such as Denver, Nashville, and Raleigh. However, Marry explained that she doesn't believe this downturn will end the trend of urbanization and attractiveness of cities. Therefore, a lower cost city such as Chicago may benefit as well. Generally, like the GCF, multifamily should survive the current crisis and has well built in fundamentals and demand drivers.

Office

While there is a current contraction in the office market, experts believe there will be a rebound. People can work from home today, however, they are missing the social aspect of work which is where many creative projects and ideas emerge. A trend that will likely accelerate is the dedensification of the office space. Prior to the crisis, many office tenants had begun complaining about open space offices and that it is difficult to get individual work accomplished.

While co working spaces have been hard hit from the COVID-19 crisis, the industry is split on whether there will be a recovery in demand for the co working space. While there will be increased measured in safety and social distancing, many businesses may realize that they no longer need permanent headquarters and could choose to focus shorter term leases such as those offered by We Work and similar operators.

Retail

While movie theatres and experience retail should recover, lifestyle centers and regional malls will be hit hard. Specifically, department store retailers will likely suffer the most as they will not be able to shift all their sales onto ecommerce and have thousands of employees. We are already seeing this happen with major retailers like Nordstrom Rack contemplating bankruptcy.

Non-Traditional

In addition to the major four "traditional" real estate sectors, many investors will likely at other sectors. An interesting sector that may emerge stronger is self-storage, as it will currently has strong in-place income and much of the oversupply that existed in recent years may come down in levels.

Additionally, senior housing is in a "world of hurt" right now, since prior to the recession there was minimal additional risk relative to apartments priced in. As there are statistically higher virus cases among older populations, senior housing has been hit hard. The best managers will emerge equipped with tools in handling downturns. Furthermore, from a macroeconomic perspective and demographic view, the US and western world are experiencing an aging demographic. Therefore, there will be a demand for safe senior housing.

Looking ahead, the current downturn has reinforced the need to examine hidden risks such as black swan events and global warming. Real estate managers may begin to looking underlying risks of owning properties in coastal cities due to global warming.

Global Institutional Perspective

During the Global Real Estate Web Meeting by Carmo Connect, we heard many institutions, ranging from pension funds and large family offices, speak on their perspective of the current situation. Generally, it seems that we are experiencing a highly condensed businesses cycle, which is driving the sharp pricing contractions we are experiencing.

While the rent collection in April was better than expected, many panelists explained that much of the downturn and the future of real estate will hinge on how long this crisis lasts. Additionally, it has been difficult to measure the extent of appropriate discounts on property prices because transaction volume effectively came to a halt.

Outside of certain core funds, institutional investors do not expect distributions in the near term and are working to boost liquidity and cash reserves.