

The Seizure

MARKET PERSPECTIVE
MAY 2020

Happy strange spring from your friends at Trinity Capital. As we await the reopening of the economy, we wanted to spend some time thinking about what might be ahead.

In January, we wrote a piece entitled “A Very Hot Market,” which concluded with the question “Will these great times continue indefinitely?” We answered, “Of course they won’t.”

We often try to “see around the bend” to anticipate what might unfold economically, so we can plan our investment strategies accordingly. Now, it’s harder than ever to see around the bend – but like past downturns, we sense that it’s going to take some time before we see the collateral damage from this economic seizure.

In April, we collected 97% of our monthly rents from our office and industrial tenants. Approximately 10% requested rent relief, which we analyzed on a case-by-case basis. Some of those ultimately resulted in no changes, but others worked with us to find a mutually acceptable solution.

In early May, our collections have been tracking along the same percentages we saw in early April, but we won’t have perfect visibility until a little later in the month. As an interesting aside, our counterparts that own retail assets report rent collections in the 20% to 30% range for April, although those that have heavier grocery store concentrations in their portfolio report retail rent collections as high as 50%.

get out to tour space. Plus, many are in “wait and see” mode as the pandemic continues to unfold.

A few articles have recently been written about “the death of office space.” The thought is that the Zoom era will usher in a future wave of work-from-home status for much of the nation’s white-collar workforce, and that will lead to a reduction in demand for office space. At the same time, we’re witnessing office tenants who are now confronted with reversing the densification practices they’ve initiated over the last decade; for example, we’ve learned that one



PARK POINT / RESEARCH TRIANGLE



EASTGATE 540 / RALEIGH

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Leasing activity has largely come to a standstill. We have been fortunate to sign letters of intent and new leases totaling about 300,000 SF, but we’re seeing very little new activity on the leasing front simply because tenants can’t



of the largest tenants in our portfolio, and one of the five largest technology companies in the world, has changed its density policy from 150 SF per person to 300 SF per person. That means that their office density will go from 6.66 people per 1000 SF to only 3.33 people per 1000 SF.

In summary, we don't think the office sector will die – not even close – but as is often the case, the bucket of commodity office product will just get bigger. That's why we've always invested in the top 25% of the office asset class – to mitigate our risk and protect our investments when the inevitable bumps in the road occur.

On the industrial front, the outlook is very positive. Surely consumer spending will slow, which means that the velocity of goods flowing through warehouses will slow, but at the same time, we anticipate that the percentage of goods leaving retail stores for warehouses (via e-commerce) will accelerate given this health crisis. In our opinion, overall industrial demand will remain steady because of these factors, and when the economy regains steam, industrial will continue to be the hottest property sector.



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On that note, many of you have probably seen the announcement that we've hired Massie Flippin, an industry veteran, to run TCA's industrial group. Massie has been in the business for more than 20 years and is going to help us accelerate our industrial platform once we've emerged from this current crisis.

Our late business partner David Allen used to say that “change creates opportunity.” In the not-too-distant future, we will see tremendous investment opportunities as a result of the fallout from this economic seizure we're experiencing. In the meantime, all we can do is walk the dog and work from the couch while we wait to see what the rest of the year will bring.

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