

# **IMPACT OF COVID-19 ON REAL ESTATE MARKET**

Real Estate and Construction Survey

Philadelphia and Delaware Valley

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**Rajneesh Sharma and Priyanka Yadav**

July 2020





## A Message from Joseph DiAngelo

Dean, Haub School of Business

We are proud to bring you the third in a series of research reports from the Haub School of Business Real Estate Program at Saint Joseph's University.

The research series will focus on topics impacting the Real Estate community in the Greater Delaware Valley area. We would like to thank our Advisory Board of distinguished real estate practitioners in the development, legal, construction, brokerage, and financial areas, for invaluable guidance and assistance with this endeavor. Our goal is to become a resource to the community by exploring ideas that are on the cutting edge of Real Estate Development. We encourage your input and if you wish to recommend topics for further research please do not hesitate to contact me at [joseph.diangelo@sju.edu](mailto:joseph.diangelo@sju.edu).



Thank you for your interest in our program and we look forward to serving your needs.

Joseph A DiAngelo, Ed.D.

Dean, Haub School of  
Business Saint Joseph's  
University



## A Message from Joseph Kessler

**Saint Joseph's Real Estate and Construction Alumni Board** SJU REC is a bridge between those students aspiring for a career in real estate and Saint Joseph's vibrant alumni who have already blazed that trail. In addition to academic rigor, by SJU REC providing mentoring, real life experience, intern and job opportunities, Saint Joseph's is developing the next generation of real estate professionals. The SJU REC events, panels, speaker series, as well as the Annual Holiday Luncheon, provide meaningful network opportunities for students, alumni and the real estate professionals in the Delaware Valley. Participation in SJU REC is welcomed.

Joseph F. Kessler

Dilworth Paxson LLP



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## A Message from Dr. Cheryl McConnell



At Saint Joseph's University, our faculty scholars are committed to research that is relevant and useful to industry and to the larger communities in which we live, learn and work. The faculty actively seek opportunities to engage our industry and community partners in collaborative, reciprocal and mutually beneficial projects. I am proud to share with you one such example: the third in a series of research reports from the Haub School of Business' Real Estate Program focused on topics impacting the Real Estate community in the Greater Delaware Valley area.

It is difficult, if not impossible, to identify a sector which has not been directly and severely impacted by the global COVID-19 pandemic. In an effort to understand the challenges specific to our regional commercial real estate market, faculty in our Real Estate Program have elicited survey data from local real estate professionals. Detailed findings are presented in this report.

We hope that you find it both relevant and useful.

Cheryl A. McConnell, Ph.D.  
Provost and Vice President for Academic Affairs  
Saint Joseph's University



## Survey Information

Rajneesh Sharma, Ph.D. and Priyanka Yadav, M.B.A.

This is the third edition of the Saint Joseph's University (SJU) Real Estate and Construction Survey. This survey focuses on the impact of COVID-19 on the Real Estate Industry. The survey was sent to the attendees of Saint Joseph's University (SJU) Real Estate and Construction Advisory Board's annual December luncheon. This luncheon is geared towards Real Estate professionals working in the Philadelphia and Delaware Valley markets. The impetus for this survey came from an email sent to Real Estate industry professionals by Dean Joseph DiAngelo. In his email, Dean DiAngelo mentioned the impact of COVID-19 on some businesses and pondered how the crisis would impact the Real Estate industry.

The survey consists of 14 questions. Of these 10 focused on the impact of COVID-19 and 3 focused on the demographic information of the respondents. In addition, we also asked the respondents if they would be willing to write a monograph/article on the impact of COVID-19 from their perspective. We obtained and analyzed a total of 95 responses. In addition to the survey results this report also contains four articles from industry professionals.

Pages 2 to 11 contain the results of the survey and pages 12 to 15 contain articles written by industry professionals. The contact information of the industry contributors is given on page 16.

Special thanks to Joseph Kessler, Dr. Joseph A DiAngelo (Dean of the Haub School of Business), Dr. Cheryl McConnell (Provost, Saint Joseph's University) for their support. Without their support this project would not have been possible.



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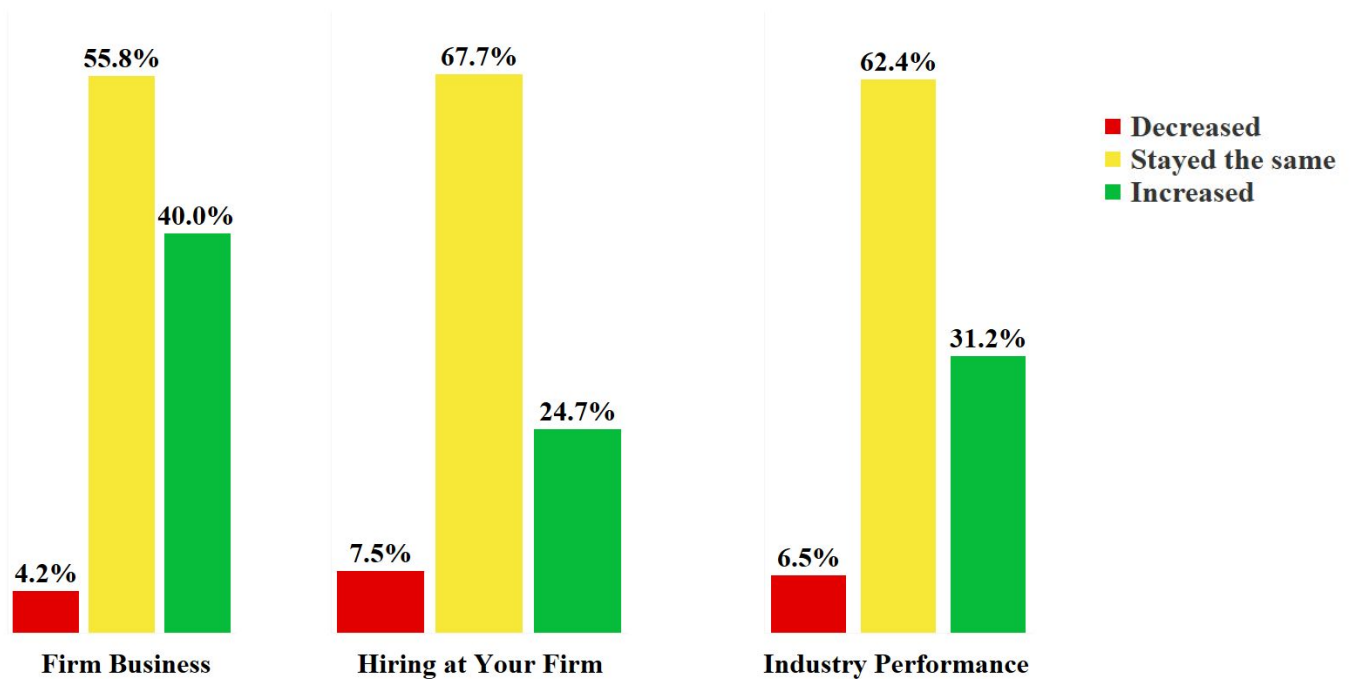
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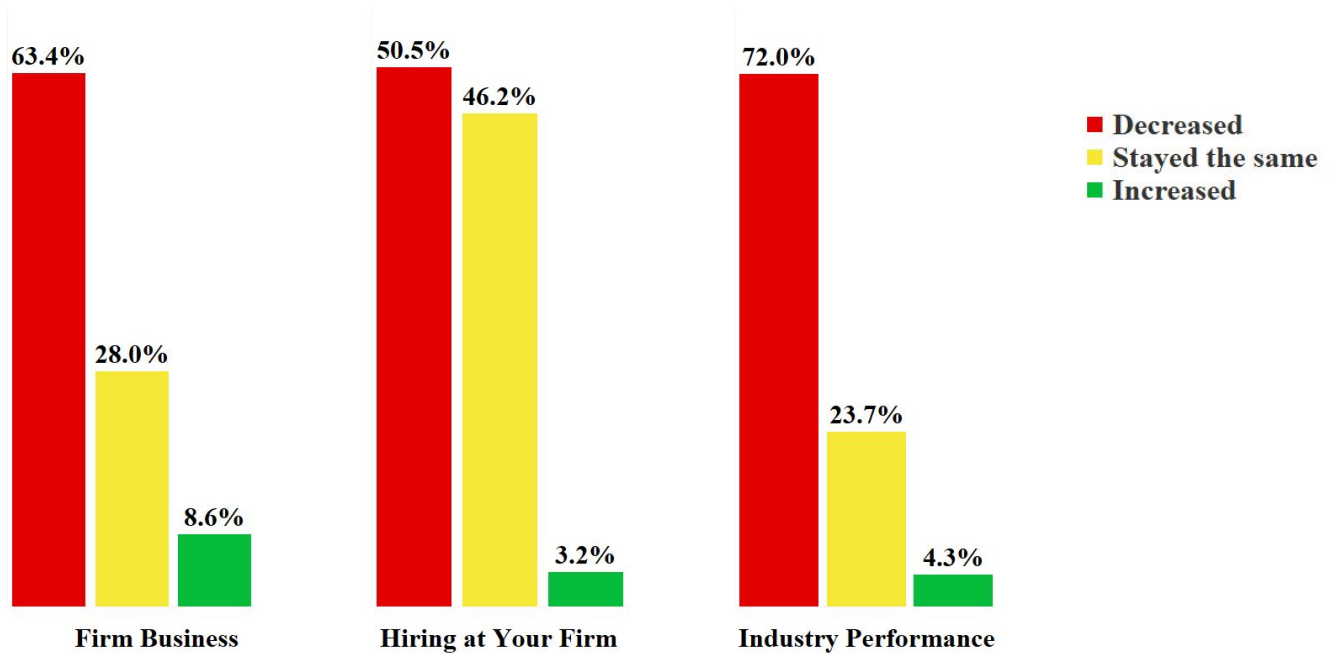


## Business Conditions: January and February



Question: In January and February of 2020, how did the following change?

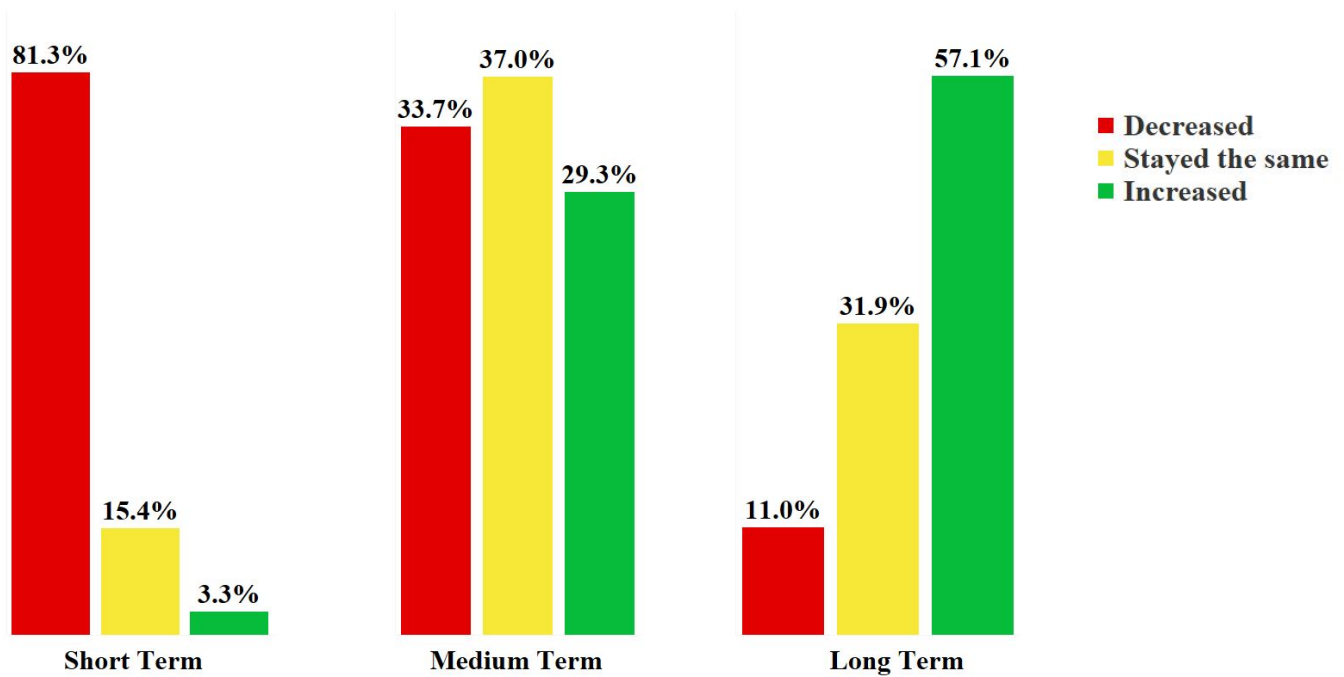
## Business Conditions: March



Question: In March 2020, how did the following change?

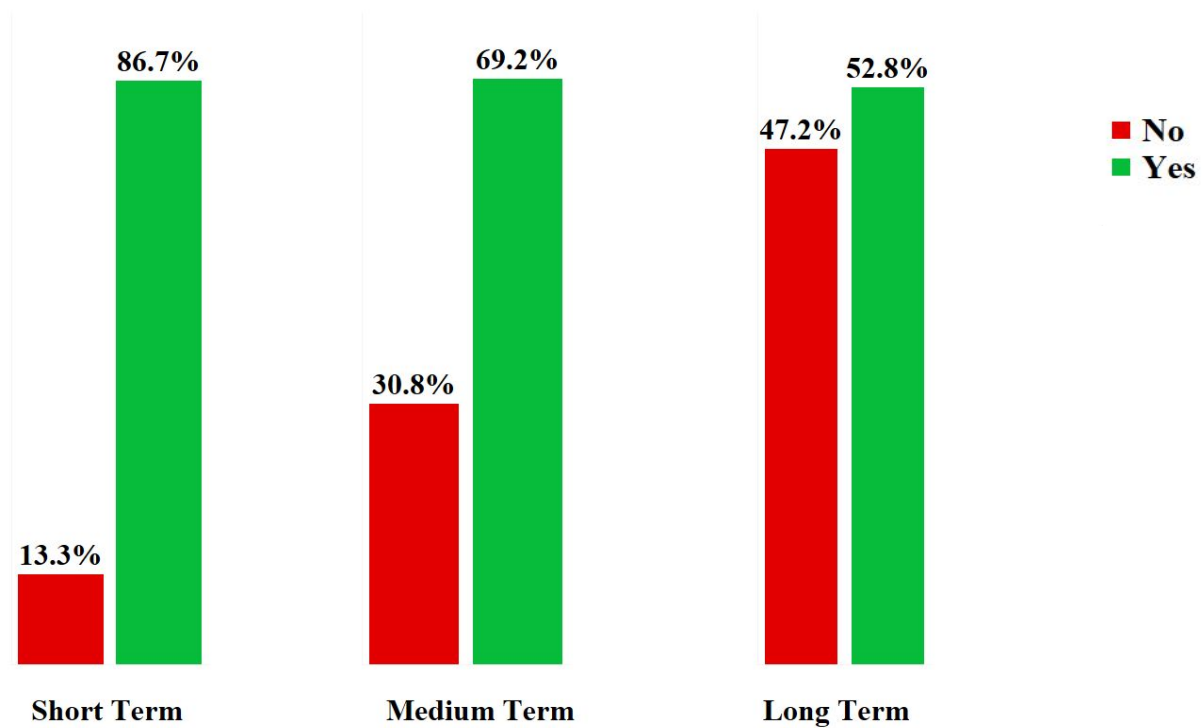


## Change in Demand



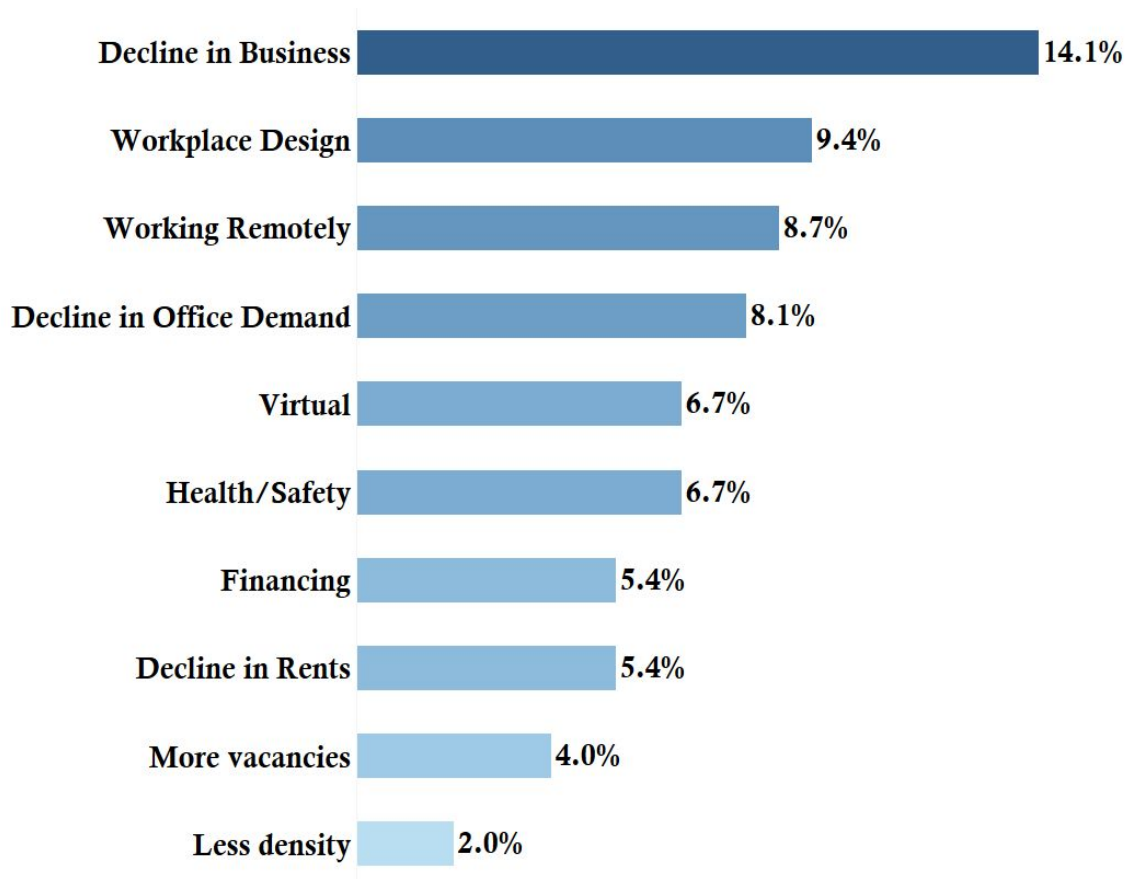
Question: As a result of COVID-19, how do you expect the demand of commercial real estate to change?

## Permanent Shift in Home Arrangements



Question: In your opinion, will there be a permanent shift in home arrangements even after the COVID-19 crisis is over?

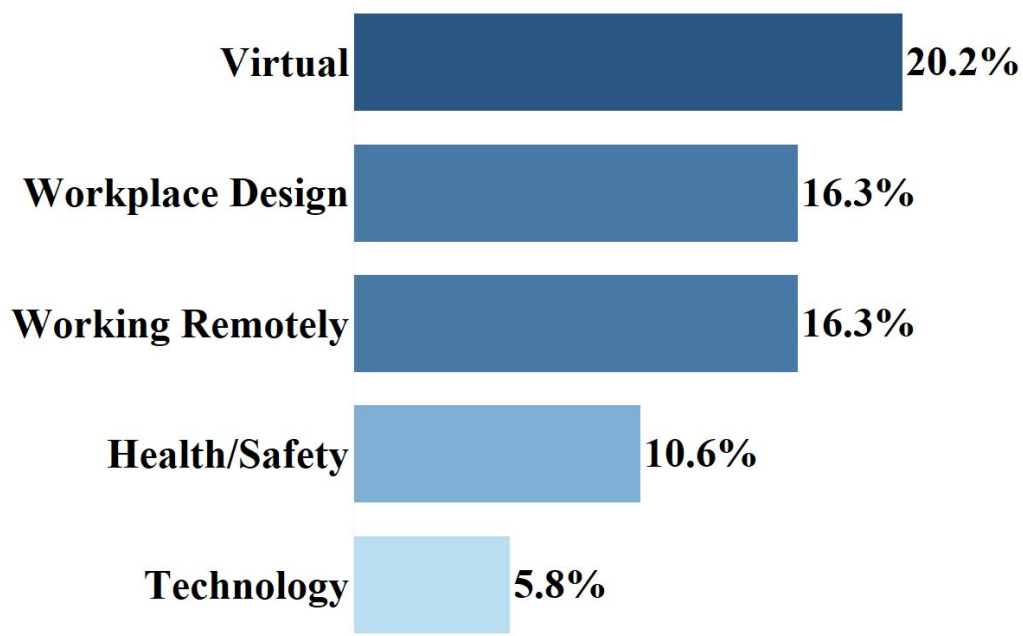
## Significant Changes



Only the top ten responses are presented.

Question: What are the two most significant changes that the Real Estate industry will incur due to the current crisis?

## Innovations

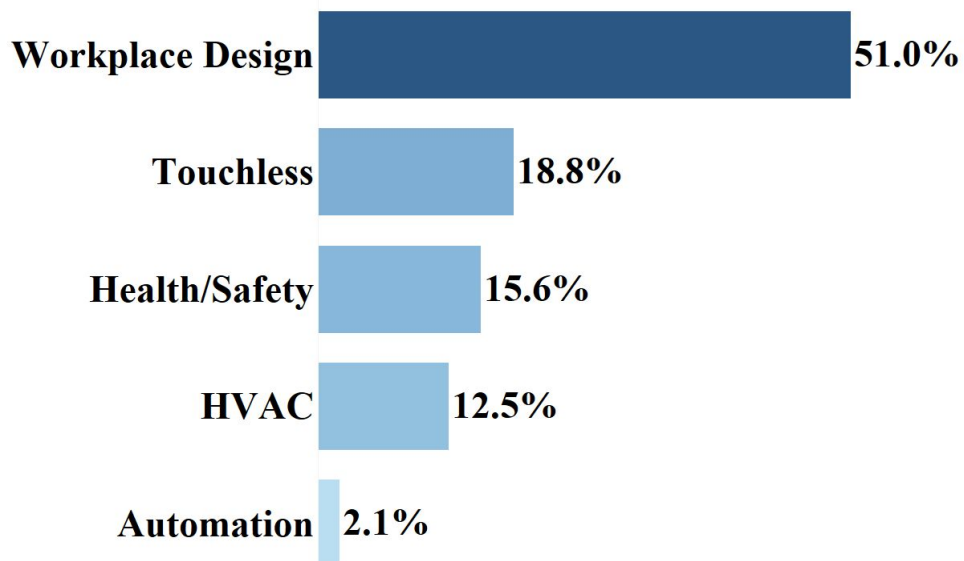


Only the top five responses are presented.

Question: What are the two major innovations that will occur in Commercial Real Estate due to the impact of COVID-19?

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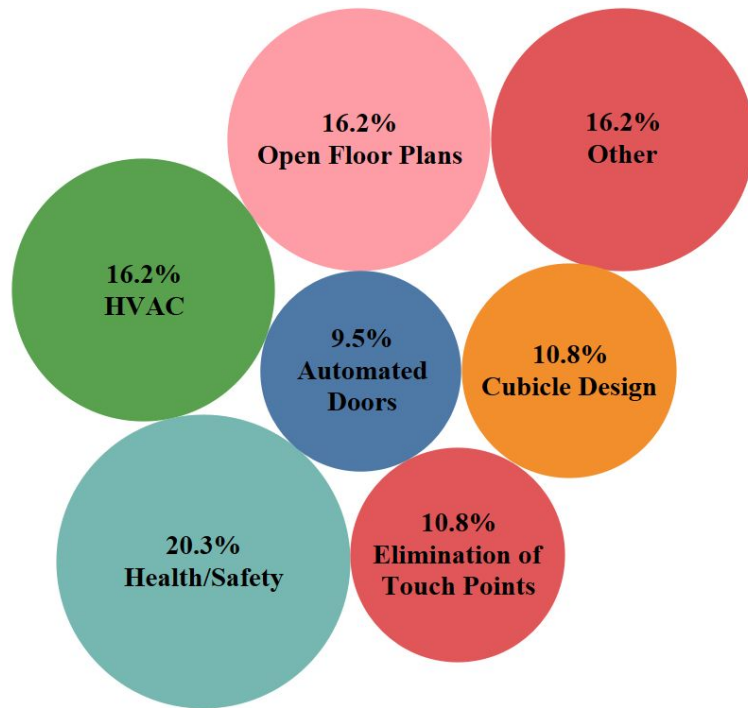
## Buildings



Only the top five responses are presented.

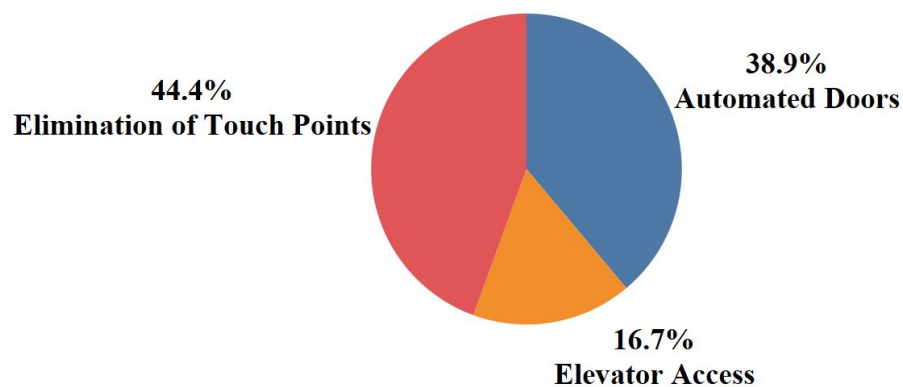
Question: In your opinion, what are the two major building design attributes to become more prominent after COVID 19 crisis?

## Details of Workplace Design (Building Design)

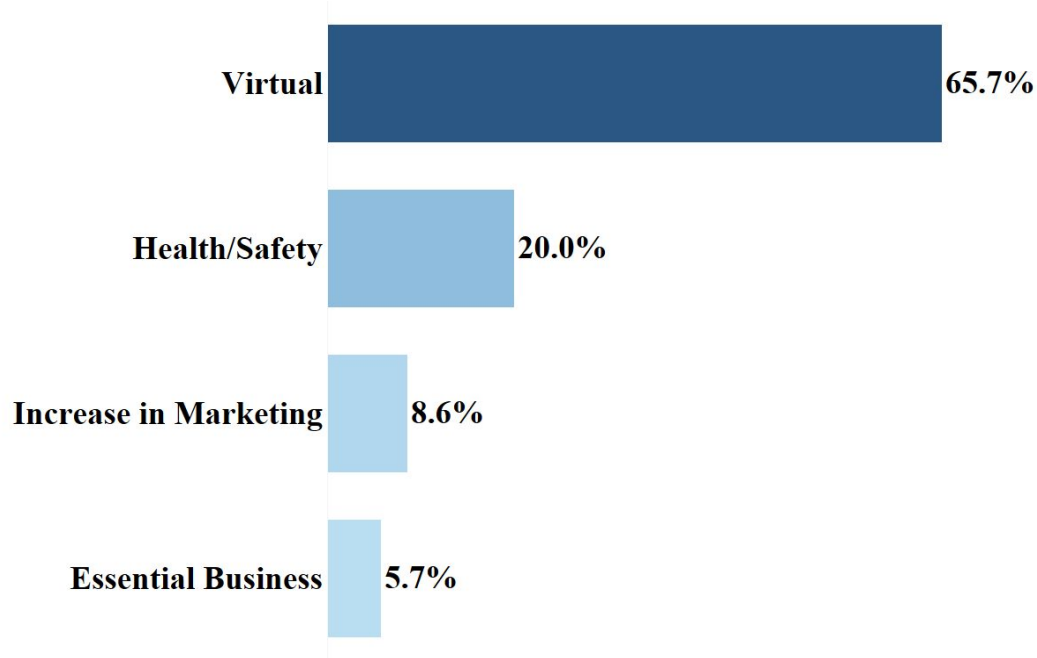


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## Details of Touchless (Building Design)



# Marketing

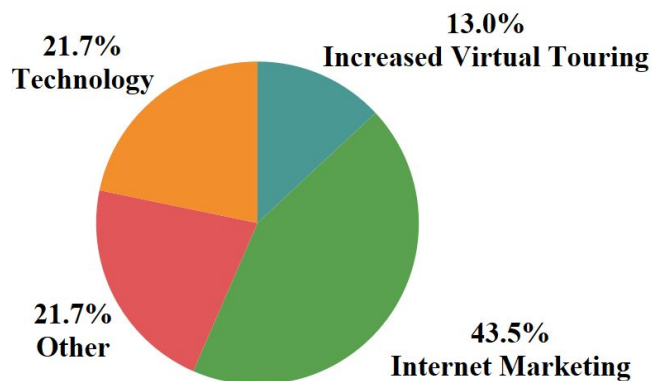


Only the top four responses are presented.

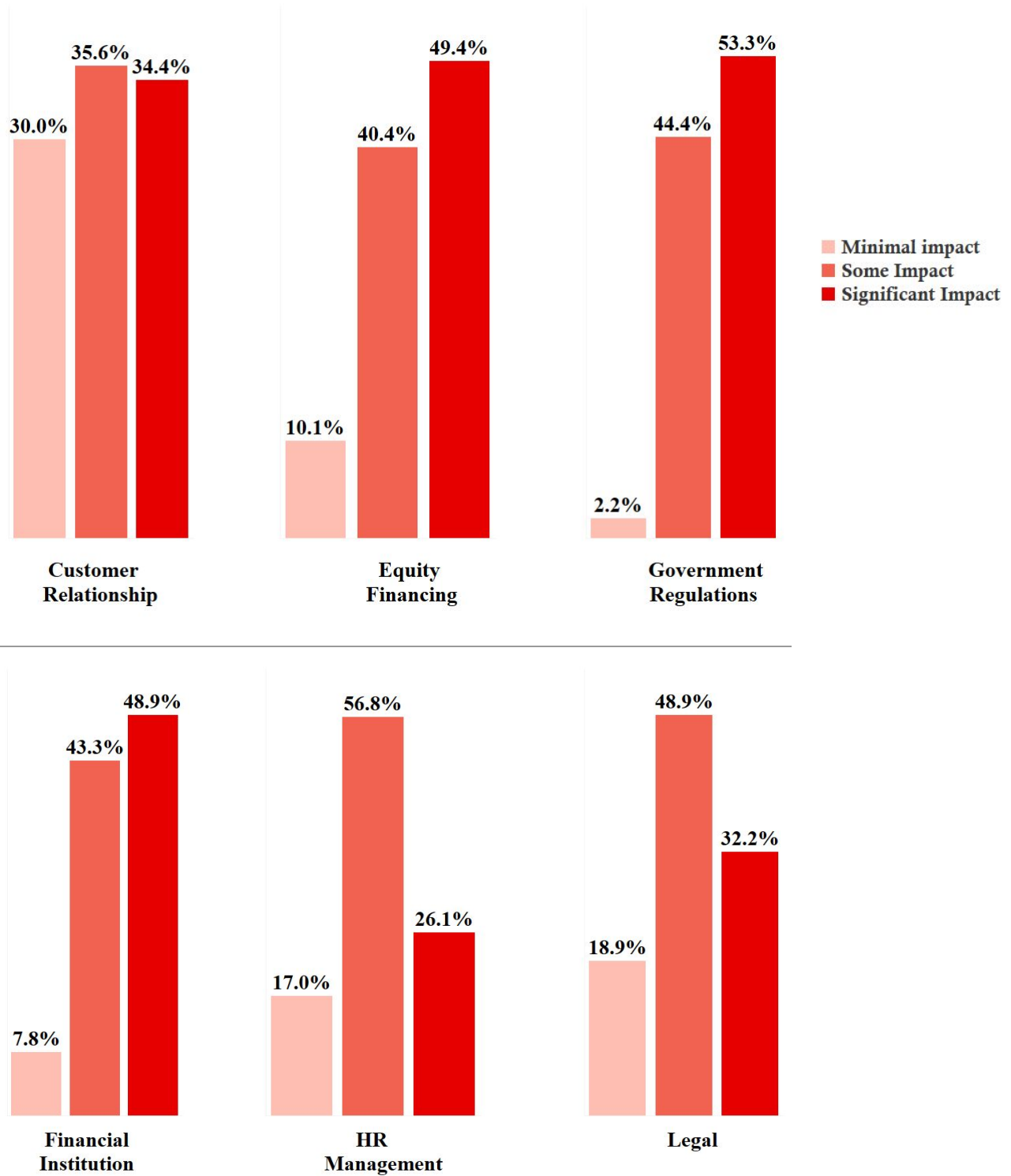
Question: How will your marketing change after the Covid crisis is over?

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## Details of Virtual (Marketing)



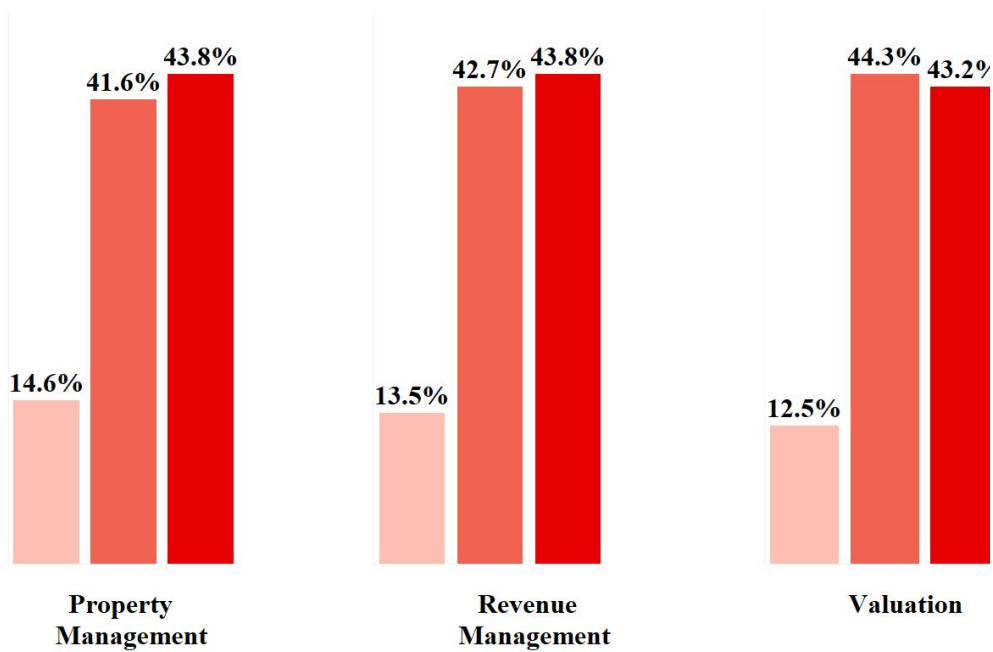
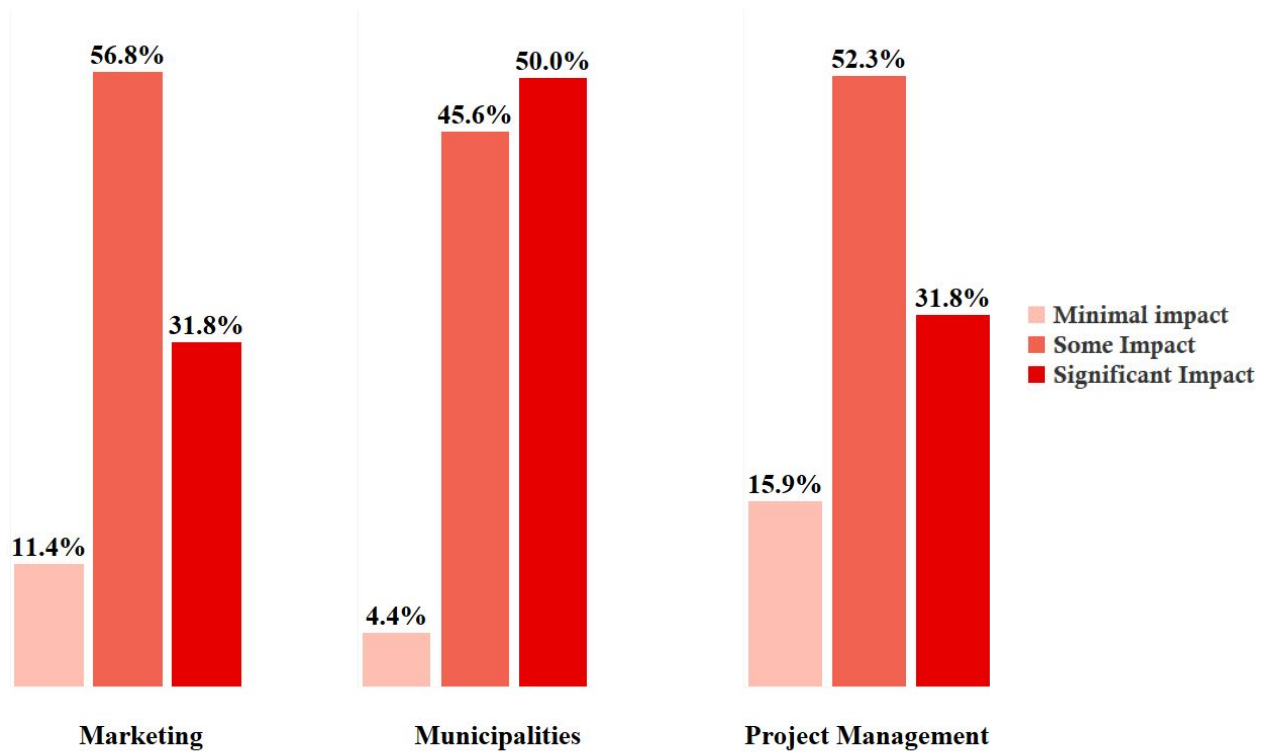
## Impact on Business Areas



Question: How will the following areas be impacted due to the Covid-19 crisis?

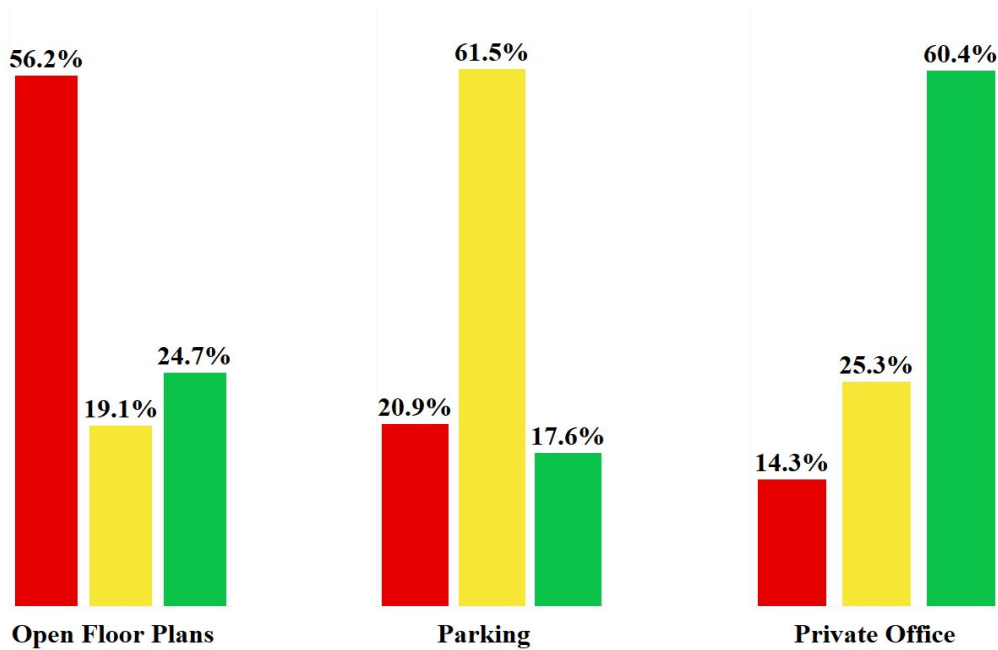
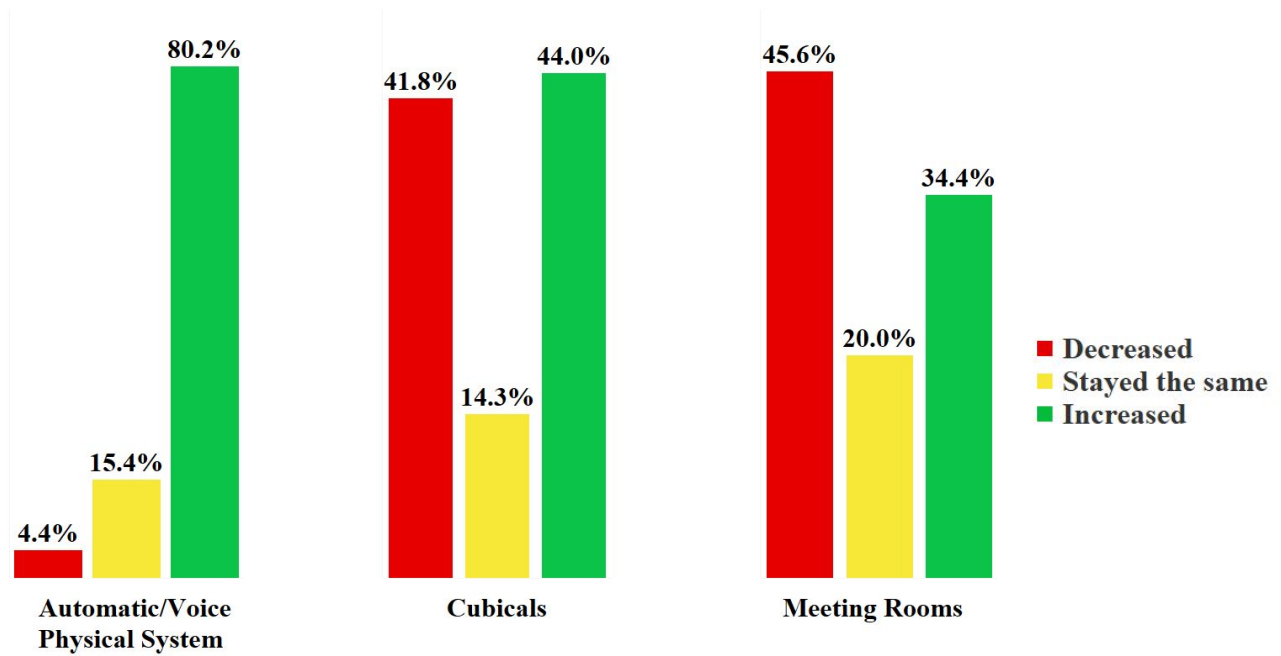


## Impact on Business Areas



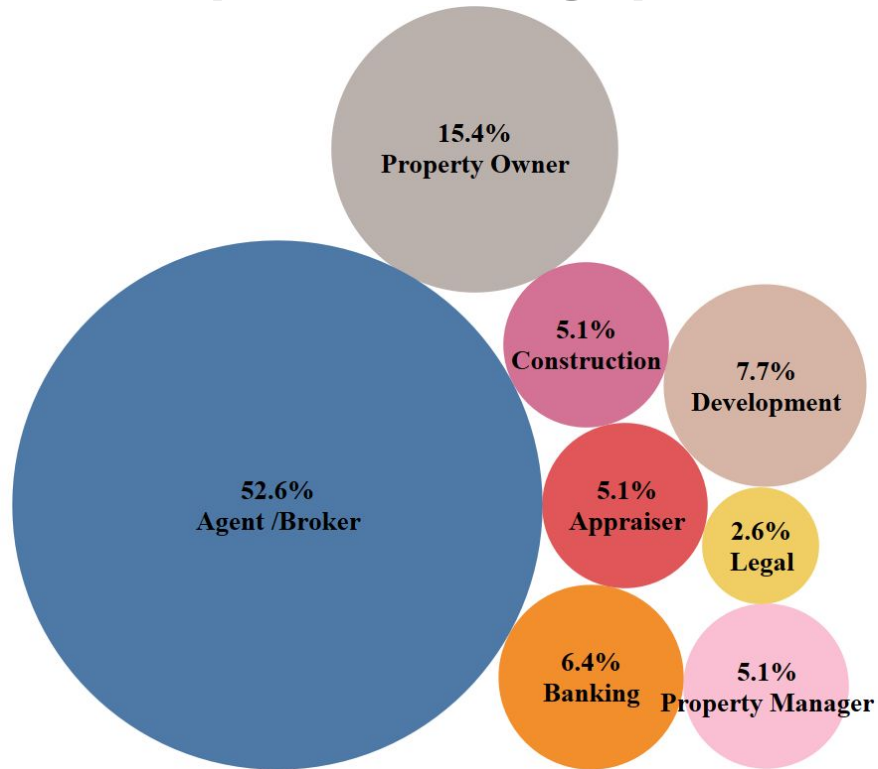
Question: How will the following areas be impacted due to the Covid-19 crisis?

## Impact on Design/Operational Elements



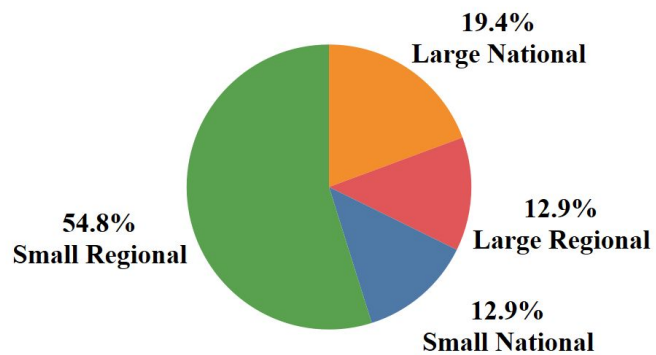
Question: How will the following design/operational elements be impacted due to the Covid-19 crisis?

## Respondents' Demographics



Question: What is your main type of work?

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The companies examined in our sample consist of Small (under 50 employees) and Large (over 50 employees), as well as Regional (DE, NJ, NY, PA) or National.

=====END OF SURVEY RESULTS=====

# Insights from Real Estate Professionals

The following articles are from Real Estate Professionals. They are not affiliated with Saint Joseph's University. For any comments/questions regarding these articles please contact the respective author directly. Their contact information is given on page 16.

## COVID-19 Impact on the Commercial Real Estate Market

Investment sales transaction volume is projected to decline by approximately half in May 2020 from the same period in previous years, according to CBRE. Varying product types are expected to recover at different timeframes, with industrial and multifamily likely recovering the fastest. The office sector will lag both of those, and retail (exclusive of grocery-anchored assets) and hospitality will be the slowest to recover. Key components to recovery include the following:

- Timely rent collection from tenants for a sustained period;
- The lending community (banks, life insurance companies, government-sponsored enterprises, and CMBS) increasing its volume and offering less conservative terms and rates;
- Investors must be comfortable with the yields that they can produce based on cash flow multiples.

**There have been so few trades that determining accurate values for income-producing properties remains a challenging endeavor.**

There have been so few trades that determining accurate values for income-producing properties remains a challenging endeavor. As an investment property sales specialist at CBRE, I am continuing to monitor markets and trends on a daily basis. I would welcome the opportunity to discuss any questions you may have.

Peter Stevens  
Executive Vice President Capital Markets  
CBRE

# Re-entry Planning For Office Buildings During COVID 19 Pandemic

Landlords and employers across the Greater Philadelphia area are busily planning for a return from home to their buildings in June and July as governmental restrictions are lifted. The dangers of contamination from the virus still exist so extreme caution and extraordinary measures must be implemented.

In Center City Philadelphia, most employers are planning a gradual return to their offices throughout the rest of 2020 with many not planning full re-occupancy until the first quarter of 2021. At Two Liberty Place, we are told that most of our tenants will start with 10% to 20% re-occupancy in July and August. If all goes well they plan to increase that to 30% to 50% in October. The biggest concerns of course are that their employees get contaminated with the virus and spread it throughout the workforce. Therefore the actions of landlords to help keep their buildings clean and safe are paramount in the employer's decision-making process.

Building owners and their management teams are taking many steps to make the office building environment safe. Using Two Liberty Place as an example, there is an important communication channel established between the various tenant entities in the building and the building management staff. The plans and procedures implemented by building management cannot be successfully implemented without the aid and support of the employers.

Safe re-entry practices begin with requiring all building occupants to continue wearing face masks when entering the building and while using elevators. Social distancing will also be enforced. We will only allow 4 persons at a time on elevators and require each passenger to stand in a corner of the elevator which will be marked with floor decals. Security officers will be on hand to ensure that these protocols are being followed. Wearing of masks within workspaces will be determined by employers based on social distancing and other practical considerations.

The day cleaning staff has been increased to frequently wipe down all touchpoints in the lobby, turnstiles, elevators, etc. Fortunately, Two Liberty has recently installed an elevator controls system, Destination Dispatch, which reads the employees' ID badge to determine the floor destination rather than having the employees' touch buttons or controls. This allows for significantly fewer touches of the controls and less chance of contamination. The increased day cleaning staff will also clean, disinfect, and re-supply the restrooms multiple times during each workday.

A strict policy on catering deliveries will be enforced to prevent non-employees from using the elevators or entering office spaces. All such deliveries will be left at the security desk and the appropriate tenant representative will need to come there to collect it. Foodservice within the building has been reduced to pre-packaged takeaway items only with minimal contact for all concerned.

Systems have been installed on the elevator cabs to circulate and purify the air in the cabs through an ionization cleansing process. Air circulation systems have been enhanced on each tenant floor to have all recirculated and all fresh air pass through a UV chamber to kill viruses and cleanse the air. Enhanced cleaning techniques have been identified for implementation whenever an area has been subjected to possible contamination. Only time will tell us if all of these steps are sufficient or whether new additional measures need to be considered.

John F Maguire  
Senior Real Estate Manager  
CBRE

## JCRE Holdings LLC COVID-19 Market Updates

There is no doubt that this is a scary, strange, and uncertain point in history.

All businesses, small and large alike, have tough times ahead. CEOs, management staff, and business owners are busy planning their next move and trying to adjust to a rapidly changing economic environment. Ultimately, businesses that are lean, appropriately leveraged, have a quality product or service, and an excellent contingency plan in place are in the best position to weather this storm.

**Yes, we are expecting late rent payments and non-payments to occur once the stimulus money runs out.**

JCRE Holdings LLC is just that. We have spent several years building quality homes to rent at a great value. We have been building cash flow, streamlining operations, and reducing costs by leveraging technology. As of this writing, we have a 97.50% occupancy rate and do not expect that number to drop significantly. Our collections for April & May were 99% if not better than normal months due to the federal government passing an unprecedented stimulus package. Yes, we are expecting late rent payments and non-payments to occur once the stimulus money runs out. At the moment tenants are getting an additional \$600 a week on top of unemployment benefits if they have lost a job or had hours cut. This makes it tough not to pay rent when most of our rents are already very affordable (between \$900-1200/m). However, even with a significant drop in rental income, we are well-positioned to stay operational.

The best investors in the world make most of their money in down markets. They seize opportunities that others do not. JCRE Holdings began and grew at the start of the last cycle. If the market becomes weak again, we are prepared to take advantage of the situation, with the possibility of expanding even faster than our 50% annualized average over the past two years.

Jeremy Chaudet  
Owner of JCRE Holdings LLC



## **Covid-19, Rent Relief, and one man's attempt to remain relevant and add value by listening and sharing information**

I manage the leasing of ~1MM SF of office space for one of downtown Philadelphia's largest private owners of real estate in the office sector. On March 16th, I was sitting in my office in Two Penn Center, situated directly across from City Hall. For the most part, it began as a fairly typical day; my office phone was ringing, the cell phone was buzzing, and I worked feverishly to keep up with a steady flow of emails. Then, word broke that Mayor Kenney had ordered a two week shutdown of non-essential business activity in Philadelphia. I packed a "mobile office" including everything I might need over the course of the next two weeks thinking it would be an unusual couple of weeks.

Fast-forward to more than three months later and, as I draft this, not much has changed. Yet, it seems as if everything has changed. In the time between, I developed a new vernacular and, on a daily basis, discuss: rent relief, the CARES ACT, PPP Funding. I had to gain knowledge on those topics and had to do it fast and deep. I needed to become an expert so that I could share this information with tenants when they would call to say that they couldn't pay rent or that they didn't know what to do.

In my role as landlord's exclusive agent, I have spent, and continue to spend, countless hours on the telephone, listening to business owners and C-Suite decisions-makers as they share their grief and anxiety around Covid-19 and how it has impacted their business and the hardship that they have had to endure. Tenants are asking for rent relief and some might actually need it in order to survive. I do a lot of listening and am truly sympathetic... then I must break the bad news. Landlords have not gotten relief from their lenders. They rely on rental income in order to "keep the lights on" and to compensate the brave staff who have continued to show up for work every day, in buildings that have remained operational due to having at least one tenant who operates some form of life-sustaining business. It took some time but I believe that I have mastered the art of explaining all of this in an empathetic manner. I also share what I know about what other tenants/landlords are doing or have done. Very rarely does any of this lead to the "papering" of an actual transaction, the way I once did on a regular basis, but I believe that I am making an investment of human capital, deepening critical relationships, and helping the people in my world by listening, sharing information, and educating them around what their options might, or unfortunately might not, be.

I have a unique perspective in that, on a daily basis, I speak with lawyers, CPA's, doctors/dentists, psychologists, non-profits, technology companies, construction companies...you name it; if you own, or run, a business that might lease space in Philadelphia, you are in my universe and likely on my radar. I've noticed an uneven landscape whereby some are impacted more than others but, for the most part, we have all been impacted and, as they say, "we are all in this together."

This has become my full-time job. It's a non-income producing activity but it is what I have been called to do at this time and what I spend most of my time doing these days. As part of my profile and brand, I have long-since claimed to be a problem-solver. This one is unique and extraordinary but I am trying to do my part and I believe in our city and believe firmly that we will prevail and that office leasing in a very-recently thriving and energetic environment like Philadelphia is not a thing of the past. Recovery will take time but we'll be much stronger on the other side of this.

Daniel Gummel  
Vice President,  
PernaFrederick Commercial Real Estate

# Contact Information

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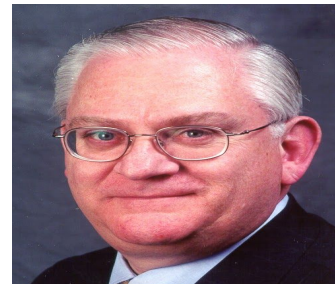
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# Program in Real Estate Finance

The Real Estate Finance Program offered through the Finance Department in the Haub School of Business (HSB) gives students the opportunity to gain an understanding of the theory and practice of the real estate industry. Students complete a rigorous six-course program of study with classes covering topics such as commercial real estate valuation, residential loans and investments, and commercial real estate development. As part of their course of study, students enrolled in the program will receive training in ARGUS, a software tool commonly used for valuing commercial properties.

Beyond the course work, students also interact with Real Estate Industry Professionals. The SJU Real Estate and Construction Advisory Board is a strongly engaged network of influencers in the industry who work with SJU students to obtain internships and career opportunities. In the past, our students have obtained scholarships from the CREW, internships and full time positions. On campus there is a real estate club, which organizes events, guest speakers and networking opportunities for students.

For more information contact: Dr. Daniel Jubinski at [dan.jubinski@sju.edu](mailto:dan.jubinski@sju.edu) or the Finance Department Chair: Dr. Morris Danielson at [mdaniels@sju.edu](mailto:mdaniels@sju.edu)



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