

Profimex Market Research Update – April 26, 2020

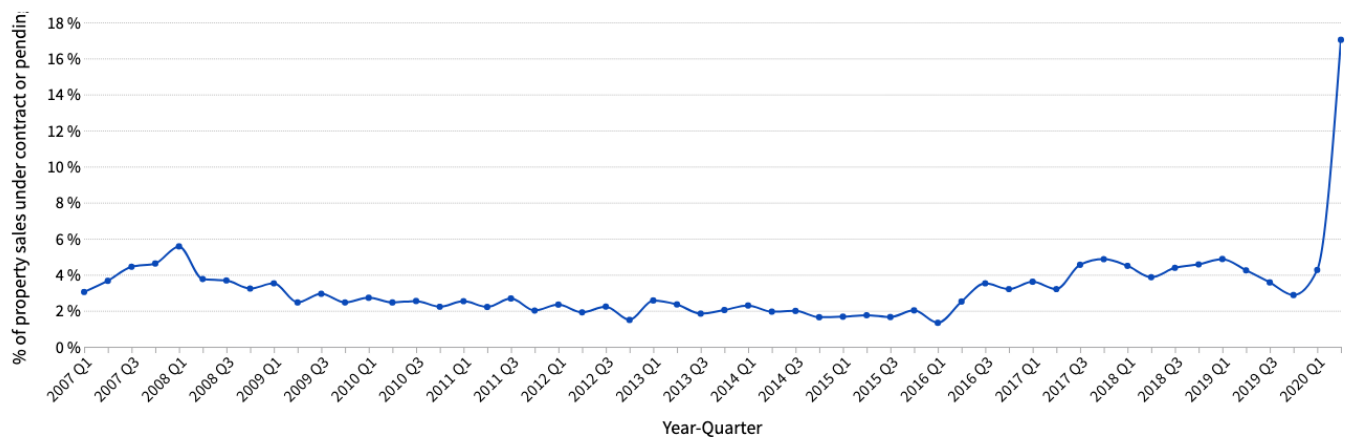
Canceled Deals Surge During Pandemic

According to CoStar, over 17% of deals scheduled to take place in April were called off. For comparison's sake, the amount more than triples the previous full-quarter high of 5.6% in the first quarter of 2008 as the Great Recession was kicking in.

Well over \$500 million worth of deals fell through, which was largely driven by individual property owners and regional developers. Additionally, the hotel sector had experienced the largest decline, with 32% of scheduled hotel sales being called off. The dropped hotel deals are just another sign of that sector being in the bull's-eye of the impact from the spread of the pandemic, said Jan Freitag, senior vice president of lodging insights for STR, a CoStar Group company that tracks hotel data around the world. CoStar is the publisher of CoStar News.

Below a chart by CoStar that illustrates canceled property sales dating to Q1 2007.

Canceled Property Sales Surge



Source: CoStar Group, April 2020

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What Will the Multifamily Landscape Look Like Post-Crisis?

As we are in the midst of deep global crisis brought about by COVID-19, it's important to understand how multifamily will function during the crisis and afterwards. While there is no playbook that could have prepared multifamily operators for today, managers who are able to be methodical in their strategy will likely succeed.



Additionally, key to successful operation going forward, panelists agreed, will be adjusting to

renters' changed behavior and expectations, in factors such as shared amenity spaces. Gray noted that in the future, a renter might not be so nonchalant about stretching out on a pool chair just a couple of feet away from his or her nearest neighbor, or working out in a crowded onsite fitness center.

Eby cited the "adaptive innovation" in the approach that multifamily operators will take in writing that new playbook. At present, he said, "We're bridging the gap with a lot of different things" until a longer-term strategy becomes clear.

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Appraisers Tackle Valuing Properties in Coronavirus-Disrupted Economy

Today, property appraisers are working harder in order to capture up to date understanding of the value of real estate properties. That being said, In a recent survey conducted by the Pension Real Estate Association, a trade association for the institutional investment industry, members said they believe most appraised values during the pandemic will have material uncertainties. Less than 1% said appraisals conducted now would be as accurate as under normal circumstances.



As a result, the best appraisers are being updated daily on key economic figures for their pricing.

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Grant Griffin, senior managing director in the Atlanta office of BBG, a valuation advisory firm, told CoStar News that his firm is using industry consensus opinions and outlooks as well as daily reports from news outlets, brokerages and clients to fill in for actual results.

The data Griffin tracks includes:

- The percentage of retail tenants paying rent and the percentage of those paying full rent or partial rent.
- Months of lost income forecast by retail property owners.
- How long before the leasing market returns and what rates will be when it does.
- Renewal probabilities for tenants.
- Which tenants will be able to reopen first when states start relaxing their stay-home rules.
- What percentage of tenants will not reopen.

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