Profimex Market Review Update – August 26, 2020

Seven Takeaways from UBS's Real Estate Outlook Report

1) The most immediate impacted asset classes due to the pandemic are hospitality, retail, and new ground-up developments. Multifamily, industrial, and office have suffered partially only in the short-term, but generally, these sectors perform better and are able to adapt to the market dynamics and uncertainties.

2) The multifamily sector shows the most robust collection rates. However, new product delivery pipelines are delayed.

3) The industrial sector has been benefitting from the pandemic because of the increased e-commerce use. Year-over-year rent growth in the second quarter of 2020 was 4.8%, which is down from the previous years, but still displays a strong performance.

4) The office sector, even though mostly unoccupied, continues to cash-flow due to the long-term tenant leases in place.

5) Investors will potentially have to adapt their return expectations for office transactions, due to the lower collection rates and concessions that will have to be offered to new tenants.

6) The retail sector shows a mixed performance with some non-essentials tenants having shut down and other tenants experiencing record sales, such as grocers, pharmacies, and other essential service retailers.

7) Investors and appraisers find it increasingly difficult to value properties due to the low transaction volume in the market and as a result a cap-rate uncertainty.

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Cap Rates Compress for Essential-Use Properties

Properties that are tenanted by operations that are on the one side internet and specifically e-commerce resistant and on the other side pandemic resistant are experienced an increasing investor appetite. So much so that cap rates have started to move downwards. Examples of such tenants are hospitals, pharmacies, and selected grocery stores. "COVID-19 has exaggerated both spectrums of the market. If you have a grocery store right now that does delivery, it is worth even more than it was pre-COVID," Matthew Mousavi, managing principal with SRS' national net lease group.

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Mall of America Gets 16% Appraisal Cut After Late Payments

The biggest mall in the U.S. suffered a value decline of 16% due to the struggles the mall is facing as result of demand changes of customers and the impact of the global COVID-19 pandemic.

The new value of the 5.6 million SF mall is now $1.94B, down from $2.31B. The new valuation was a necessity as result of the mall’s loan delinquency. This fate has already affected 24% of hotel and 14% of retail CMBS borrowers.

The mall has already reopened after having had to close its doors due to the increasing infection rates but continues to struggle collecting rent obligations from its tenants.

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