

Profimex Market Review Update – August 3, 2020

As Many As 8,000 American Hotels Might Be Gone by October

STR recently reported that average daily rates and revenue per available room data for June was slightly up, compared to May. However, as many as 8,000 hotels might close by the end of September, as owners are struggling to pay their loan obligations. According to The Wall Street Journal the future of hospitality is even more severe, with 25,000 hotels potentially permanently closing in New York City alone. The pandemic has hit the lodging sector as hard as no other asset class. Some investors are now considering redevelopment strategies from Hotel to Multifamily, Senior-living, and Student-housing. "City councils look positively

on these types of developments because they help to ease the housing and economic needs of residents," an Altus Group note says. "While the hospitality sector struggles, demand for multi-family housing — including affordable, market rental, seniors and student housing — remains relatively robust. Converting hotels into multi-family housing can help to meet this demand by enabling owners and investors to quickly move supply into the market."

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Retail-to-Industrial Projects Grow as E-Commerce Expands

According to a recent CBRE report, a total of 59 retail-to-industrial projects, or 15.5 million square feet of industrial space have been completed, proposed, or are underway since 2017. 40 projects are conversions or adaptive reuse and 19 projects are properties that were demolished for new construction. This trend is expected to continue, given e-commerce becoming more widespread and industrial rents reaching all time highs. "As online retail evolves and expands, many retailers and developers will find opportunities to convert underperforming stores into final-mile distribution sites to support E-commerce operations," John Morris, Americas Industrial and Logistics and Retail Leader for CBRE, wrote. The top 5 markets for conversion projects are Milwaukee, Wisconsin; Cleveland; Chicago; Omaha, Nebraska; and Dallas/Fort Worth. CBRE expects this trend to expand across most U.S. regions.

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How Long Can COVID Impact the Multifamily Market?

According to Don Flanigan, SVP at Lee & Associates, there is a great amount of dry power waiting on the sidelines waiting for opportunistic deals, especially in the multifamily sector, the real estate industry's "darling". At the moment, there are not as many transactions occurring because of bid/ask gap, in which seller don't want to recognize a change in preCOVID-19 pricing and buyers waiting for discounts. However, Flanigan believes that the real estate market is ready for a turnaround.

"With the 10-year Treasury trading as low as it is, the debt market will continue to be under pressure to put money out and spreads will continue to tighten, creating an even more appealing lending market." He further mentions that his firm has a lot of deals in their pipeline and experiences discounts of as much as 10% due to the pandemic. "The biggest unanswered question with the CARES Act and the \$600 additional dollars per week in unemployment is if it will be extended," Flanigan says. "It's scheduled to burn off at the end of July. What will the impact be for the folks who are unemployed and have been relying on the additional \$600 pre-tax per week? What will collections be like come August and, more important, come September if that program isn't extended?"



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