Profimex Market Research Update – July 26, 2020

Hotels Prep for Changes in Post-Pandemic Recovery

CBRE Hotels Research predicts that pre-pandemic demand for hotel rooms won't bet met until 2023 and that investors will need to see vaccine or strong therapeutics in place, before perceiving more confidence about hotel investments. Bob Webster, president of CBRE Hotel's Institutional Group says that "there's going to be markets that recover quicker and there's going to be markets that take a little bit longer based on how the hotel accommodates its demand throughout a given year." Further, Hotel guests can expect to see clear signs of sanitization and fewer amenities. Marriott hotels will begin electrostatic spraying in common areas and seal doors to let guests know that no one has been in the room since the last cleaning. Interestingly, even with more cleaning, the less-contact approach may help hotels reduce their operating costs with fewer front desk staff and amenity supervision.

(Read)

Office Markets Are Preparing for the "New Normal"

This article points out potential changes in work routines, that could be permanently adopted.

Short term:

- New federal regulations allow tenants to defer rental payment. As a result, many owners with commercial financing are in trouble when they are not able to meet their loan covenants. Owners will have to focus on their current cash flow and a scenario that some of their tenants will file for bankruptcy.
- Tools, such as Zoom and Microsoft Teams have helped companies and its employees to remain productive. Many firms have now offered their employees to continue working from home through the end of the year.
- As employees of some other firms come back to their workplaces, office owners examine how to facilitate social distancing and what to do with their amenity packages.

Long term:

- While there may some balancing out in the medium term between less employees working from the office, but each worker requiring more square feet space to facilitate social distancing, some economists believe that the long-term net effect will be a reduced overall demand for office.
- Office leases are traditionally between 5 to 10 years and since most offices have multiple tenants in place, the effect up tenants reducing their space will come gradually. Lease expirations will give tenants an option to renegotiate lease prices and footprint.
- While cap rates have not increased yet, investors are keeping a close eye on the evaluation of their positions.

The office sector will probably face a more segmented future. Properties with strong credit tenants in growth industries will continue to experience high demand, including medical office, but properties with weaker tenants may suffer from higher vacancy rates and costlier tenant concessions.

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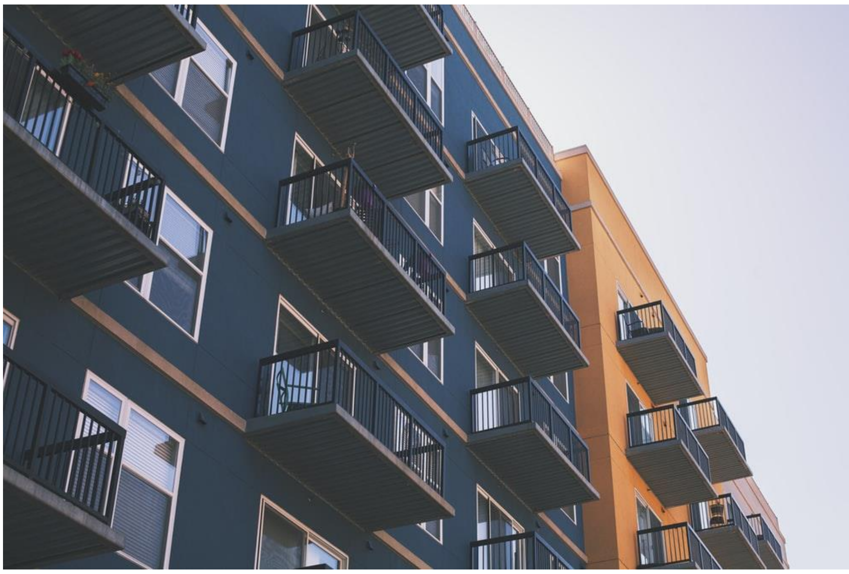
Apartment Investors Begin to Navigate COVID-19 Deal Landscape



Deal volume remains down significantly when comparing to previous years, however, there are signs of life in the multifamily transaction market. Some experts argue that the deals we are seeing in the market today must have already started prior to COVID-19. According to "CBRE Deal Flow" there is a 60% reduction in apartment property offerings, compared to last year. This is a sign that owners are not yet interesting in selling.

"Lower quality and smaller buildings are recovering new listings quicker," says Andrew Rybczynski. "This tracks with transaction volume, where the average size of a multifamily deal by dollar amount fell 35 percent year-over-year in the second quarter. So, the bigger and higher quality product usually associated with institutional owners is the segment that is slowest to return to market."

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