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Profimex Market Research Update – June 7, 2020

The Distressed Deals Have Started

Barry Sternlicht, chief executive at Starwood, mentioned in April that the firm was "on offence" and looking for opportunities thrown up by the pandemic. He now closed on the first of those opportunities with a $325M investment into a mortgage REIT, managed by TPG. This is one of the first significant distressed real estate deals to be completed since the beginning of the coronavirus pandemic. The REIT owns 65 senior mortgages and one mezzanine loan, totalling $5.8B.

(Read)

Will the Rush to E-Grocery Recede or Stick After the COVID-19 Crisis?

The global pandemic has changed the grocery industry, challenging supply chains and product on hand as demand soared. As customers were concerned to walk into supermarkets, E-groceries experienced a strong demand increase. Many grocers had already begun investing in ecommerce solutions and the current pandemic will force many other grocers to follow the same strategy. A recent interview with Jon Hauptmann, Senior Director of Retail Pricing and Analytics Solutions at Inmar Intelligence explores the market changes and further elaborates on what ingrained online buying patterns will be.

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CRE Deals Drop 71% But Price Trends are Still Unclear

A recent report by Real Capital Analytics' found that real estate deals in April have dropped by 71% year over year. The report states that "social distancing measures and travel restrictions have made it difficult to perform the necessary due diligence to close on a property, and many deals that were already in contract fell through." The report further mentions that COVID-19 did not impact the pricing for properties that sold as much as it impacted the sales volume. Most of the transactions had a pre-negotiated price and were therefore not sold at a discount. In fact, as owners are not forced to sell, social distancing and store closures will not yet affect pricing.

(Read)

In a Post-COVID World, Office Landlords May Be More Willing to Offer Short-Term, Flexible Leases

MetLife Investment Management recently published a report on office demand. Overall, the group forecasts a limited impact on office demand. While many firms will try to permanent work-from-home arrangements, a substantial number of those arrangements will not work out. Office leases usually range between 5 to 10 years, however, under these market circumstances, traditional tenant renewals in 2020 will probably be for one- to two-year terms as tenants figure out what their longer-term space needs will be. In the current environment, office landlords may have to work with the demands of the market and offer shorter and flexible lease terms.

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Apartment Investors Wait on the Sidelines

Multifamily investors want to buy properties but are waiting for clarity on price discovery before pulling the trigger on deals. Economists expect investment sales volume to remain low until there is a prise discovery in the market. CoStar Group believes that "total rent growth at the end of the year is highly unlikely to be as positive as it would have been, and vacancy is likely to be higher than at the same time last year." Many buyers in the market walked away from deals for which they had already paid non-refundable deposits. This is a clear sign that some investors expect property values to fall. "Sellers and buyers are still very far apart," says Rybczynski. "With the length and levels of the pandemic disruption still unclear… buyers fear purchasing into a long downturn and sellers sit on relatively stable properties with the conviction that their value has not declined that much over the last few months."

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