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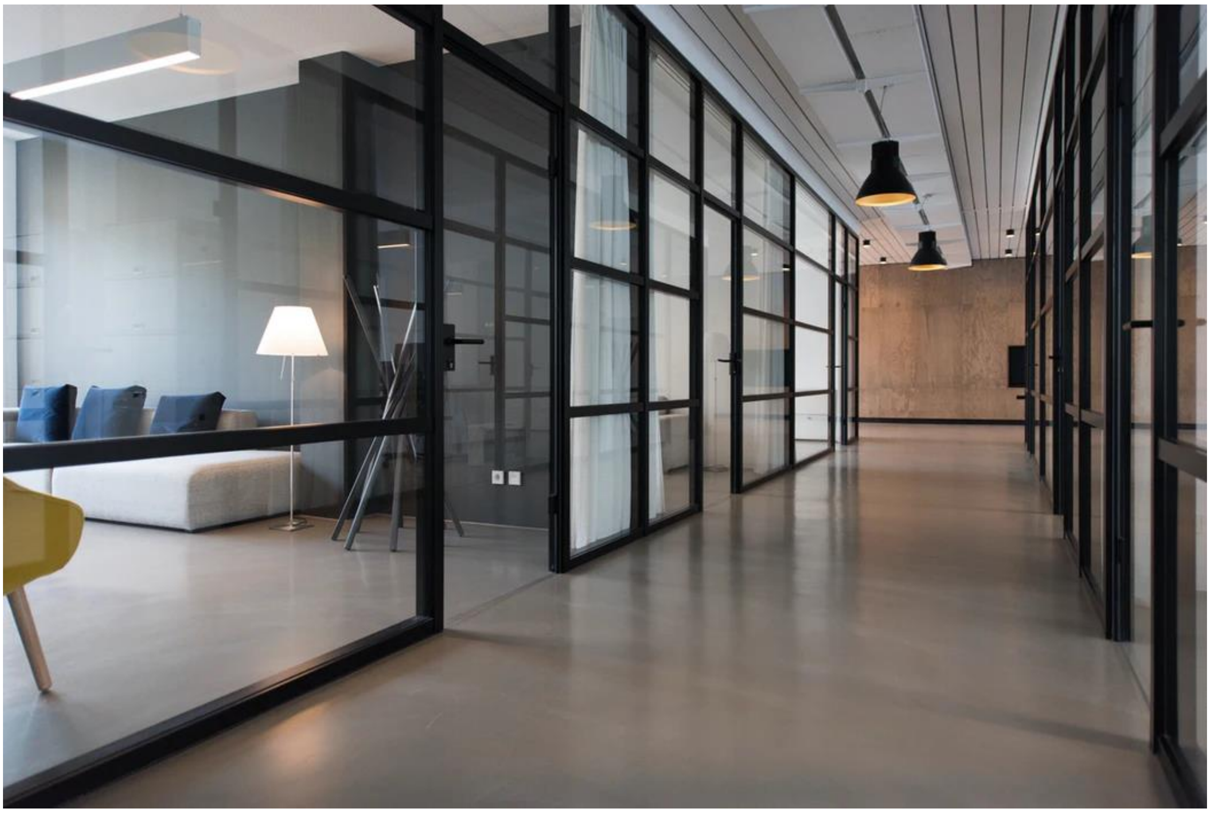
Profimex Market Research Update – June 9, 2020

A $30 Billion Property Investor Says Offices Remain a Good Bet



The head of Real Estate for Norway's sovereign wealth fund, Karsten Kallevig, believes that the entire concept of offices is unlikely to disappear. The concept of offices has recently been challenged by economists who believe that offices may become less relevant in the future, as result of a growing number of companies announcing plans to continue letting people work from home. Kallevig argues against such perception and further believes that the fund's $30 billion portfolio will not fall short of its annual 7.7%. He also believes there will be opportunities in the aftermath of the pandemic.

(Read)

What CMBS Delinquency Means for Value-Add and Distressed Buyers

Some economists are declaring that the COVID-19 recession is over and that the worst lies behind us. However, the recovery face is only beginning, and the summer months will show how the economy will shake out moving forward. When looking at CMBS delinquency data, one can witness a positive trend between the unemployment rate and CMBS delinquencies, especially those of retail and hotel loans. In April 2020, the CMBS Delinquency Rate registered at 2.29%, but now in May, the CMBS Delinquency Rate logged its largest increase since 2009 at 7.15%. Bullish investors are keeping a close eye on special servicing loans, noticing the rate rose from 4.39% in April to 6.07% in May. 16.2% of all lodging loans were in special servicing, up from 11.4% in April. In addition, 9.3% of retail loans are with the special servicer, up from about 6% the month prior.

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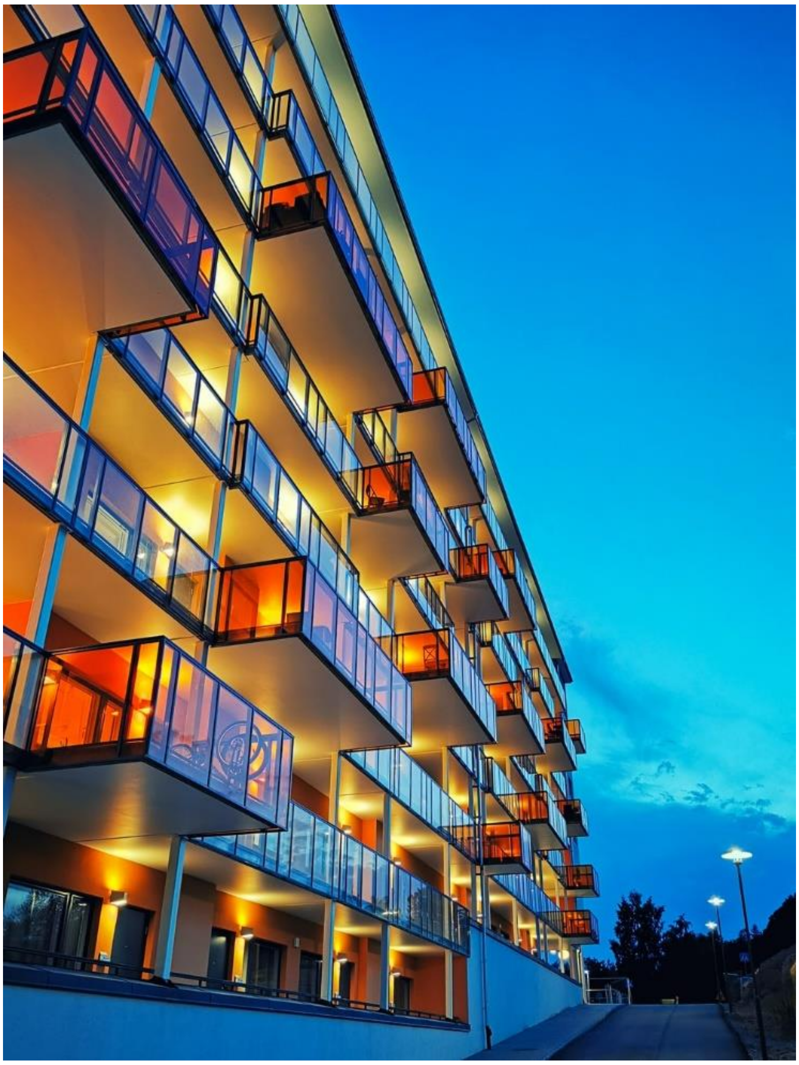
How The End of This Cycle is Surprising Experts?



During a recent online discussion hosted by George Smith Partners, market experts elaborated on their experiences during the pandemic and the effects on the economy. Tim Sullivan from Meyers Research mentioned the varied severity of the pandemic outbreak on the different US states and the extreme rise in employment. However, he was surprised to see such a quick and extensive fiscal support from the government. Other participants of the discussion were surprised by the resilience in certain aspects of the market. For example, student housing achieving stable rents and high collection rates during a time in which universities were forced to close its doors to students. Another area that showed surprising performance were REITs that have been much more stable in this downward shift compared to the 2008 financial crisis. During this time, REITs were prepared for an economic disaster as they had been planning a decade by optimizing balance sheets to make sure that in any given year, there was no significant debt maturity tower.

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