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Some Hotel Developers Start Considering Whether to Abandon Construction Projects

As the COVID-19 economic crisis continues to hurt demand for travel, many hotel developers are considering putting off construction and looking at new development opportunities. For example, Quinn Palomino, CEO of Virtua Partners, a global private equity firm specializing in commercial real estate, says the company has about half a dozen hospitality projects in "broken construction" that it's trying to find funding for. She explained that while most of their projects need additional equity, they are looking closely at which projects can produce profitability (returns) and how quickly. "We have to calculate that with post-coronavirus adjusted numbers," she says. For hotel renovation projects, the negative impact has been even worse. This is because they have on going operational and financing costs on top of the renovation costs.

The reason why hotel construction projects have been hard hit is: first, some developers were counting on equity that never came through, leaving them without the cash to finish the project. Second, there are some cases where lenders are starting to pull the plug on in-progress projects. Third, construction has always been a risky business, so add COVID-19 implications, and a number of developments are running into technical problems.

(Read)

Fixed Rent Payments Could Be the Latest Pandemic Victim

The COVID-19 pandemic created an economic shutdown that has been detrimental to many businesses' profits which have been reduced to zero. Additionally, the crisis has created a short liquidity problem for these same companies. This crisis has caused many tenants to question a core tenet of the real-estate industry: steady and predictable rent payments.

Before, fixed long-term leases had dominated the real estate industry for centuries; however, can economic shutdown exposed its flaw when companies' revenues drop and are not able to pay the typical fixed payment. Today, many retail and some office tenants, whose sales have been hurt, are asking for rent relief or restructuring their rent payments. Firm are asking to switch to short term payment plans that often include revenue sharing with landlords.

A number of retailers are already asking landlords to waive some of their rent in return for a share of future revenues. Ross Stores Inc. said last month that it would pay a rent equivalent to 2% of sales when its stores reopen. Guesst, a New York-based technology company, recently launched software to help retailers and landlords manage revenue-sharing arrangements.

That being said, there are many benefits to having a structured lease such as having a stable income. Therefore, we are unlikely to see them disappear but perhaps adapt and implement additional payment methods such as revenue sharing.

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80% of Apartment Renters Paid Rent in First Week of May

The National Multifamily Housing Council's (NMHC) Rent Payment Tracker found that more people made a full or partial rent payment in the first six days of May compared to the same period in April. This is despite the ongoing economic hardships related to COVID-19. Many investors had expected there to be a drop in collection rates as millions continue to be unemployed and under financial pressure.

The Rent Payment Tracker found that by May 6, 80.2% of apartment households in America had paid at least some rent. This is a survey of 11.4 million professional managed apartments. This is a 2% greater collection rate than for the month of April, this year; and about 1.5% lower than in the same period in 2019.

NMHC is calling on Congress to provide $100 million in direct renter assistance in its next pandemic relief package, Bibby said, warning that the pandemic has strained many renters' finances. "We are in uncharted waters and will be watching this closely over the course of the month as millions of households will not be able to access unemployment benefits, and those who have may find that they are not enough to cover rent plus all the other financial pressures caused by this crisis," Bibby said. "Those benefits will also likely fall short in high-cost areas."

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