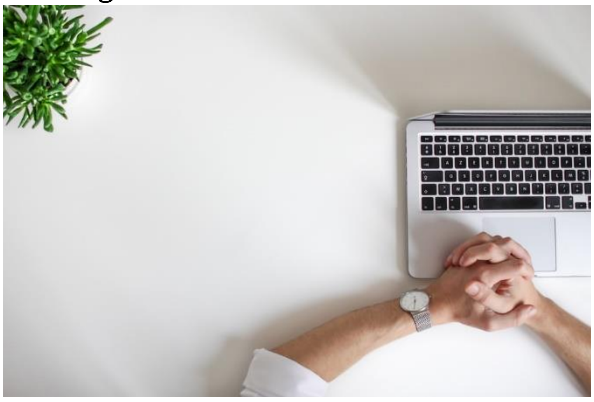
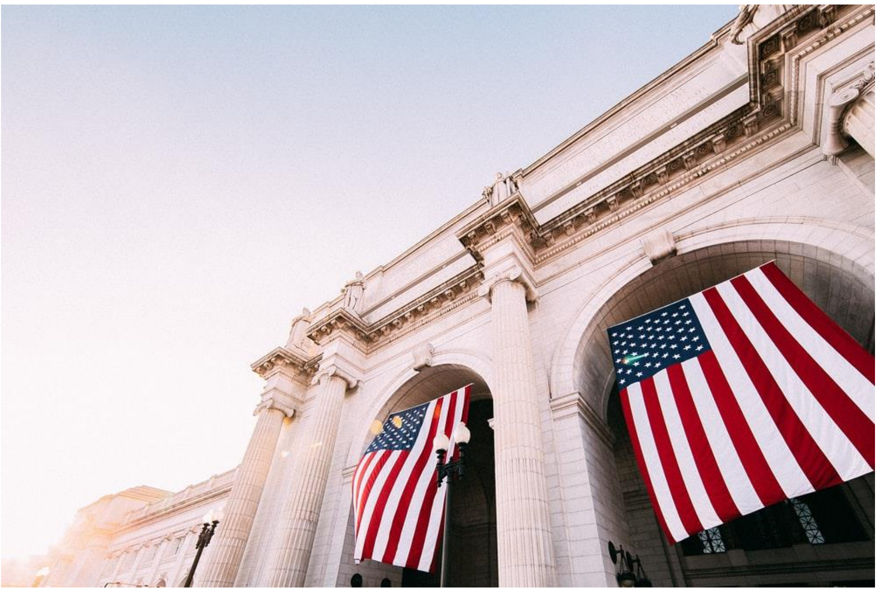
Profimex Market Research Update – May 26, 2020

Waiting for Distressed Deals to Come to Market



Keen real estate buyers are waiting on the side-lines for sellers to break off the standoff over asset pricing. Nathan Whigham, president of EN Capital and other investors believe that it is only a question of time until seller are willing to sell and the time will most likely come by the end of the summer. "Unless someone comes up with a vaccine tomorrow, I don't see how we don't get to a point between now and the end of the year, if not probably at the end of the summer, where people are forced into a position where they have to transact," Whigham says. While some few investments came to the market over the last few weeks, the overall level of distress was not large enough to justify a discount. During the last downturns, we learned that liquid investors are waiting on the side-lines and historical low interest rates have increased the competition even further. Whigham continues that "at the end of the day, when the dust settles, it will be a lot better to have a very liquid market, especially in times of such incredible uncertainty." The questions on what kind of discount buyers are looking for remains open to debate but will certainly vary by asset class and location. (Read)

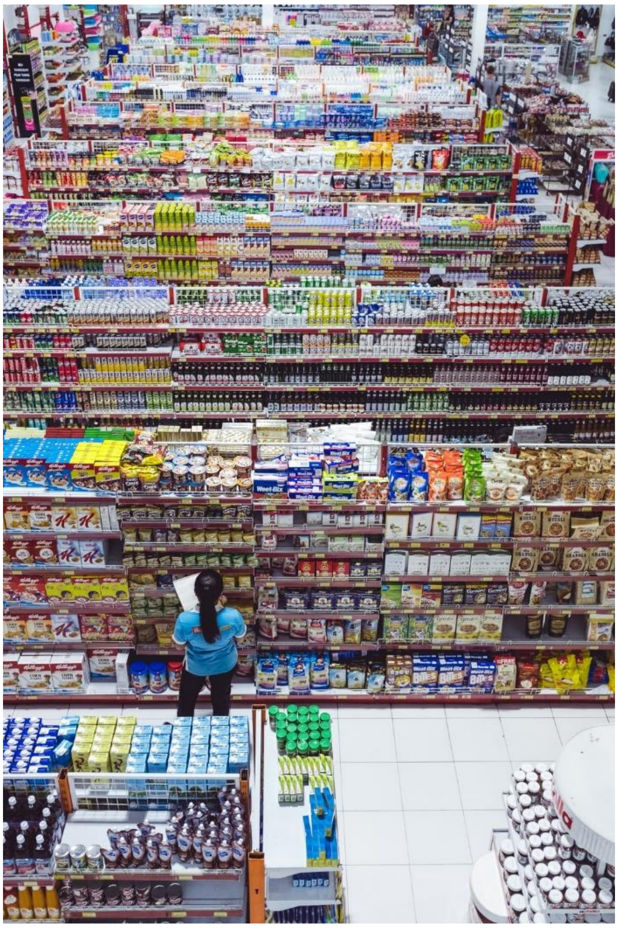
Fed wans of 'significant' hit to asset prices if pandemic grows



In its financial stability report, published twice a year by the Federal Reserve, the bank issued a stark warning that stock and other asset classes could suffer strong declines should the pandemic deepen. One of the industries that could be hit the most is commercial real estate. "Asset prices remain vulnerable to significant price declines should the pandemic take an unexpected course, the economic fallout proves more adverse, or financial system strains re-emerge," the Fed said in the report. It cited commercial real estate as being particularly susceptible to falling valuations because "prices were high relative to fundamentals before the pandemic." As real estate valuations depend on the income streams of the

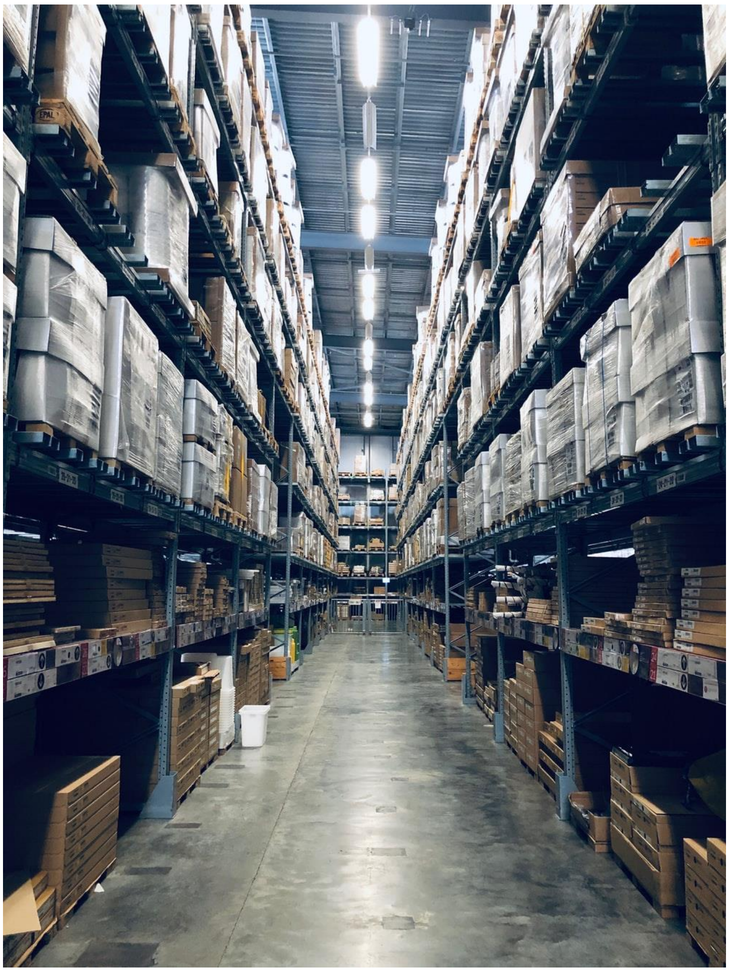
property, the impact on the tenant's ability to pay rent obligation could lead to price declines. After the economy came to an abrupt shutdown, financial markets were the first one's affected, and high volatility was seen in markets around the world. It was only after historic high fiscal support flooded the economy that markets calmed down. Chairman Jerome Powell recently said during a speech that the economy continues to rely on fiscal and monetary policy makers to continue to act. Powell continued that "additional fiscal support could be costly, but worth it if it helps avoid long-term economic damage and leaves us with a stronger recovery."
(Read)

Most real estate investment trusts are still getting their rent, except in the retail sector



For the past months, we have continuously heard about the effects of the pandemic on real estate markets. One of the data points that is most important to us, collection rate, shows what percentage of rent, a landlord was able to collection from his tenants. A survey, published by Nareit, found that collection rates by U.S. REITs were about the same in May as they were in April across all asset classes, except for retail assets. John Worth, executive vice president of research at Nareit, said that "the survey results suggest that, while REIT tenants in some hard-hit sectors continue to struggle, their ability to pay May rent didn't appreciably worsen, despite the widespread business closings in April." Industrial REIT rent collection in May was nearly 96% of a typical month and down just 3% from April. Apartment REIT rent collection in May was nearly 95% of a typical month, flat from the April number. "The continued ability of apartment renters to meet their rent obligations reflects both the federal government stimulus, including enhanced unemployment benefits, and the fact that REIT apartments generally house individuals who are less likely to have been affected by layoffs to date during this crisis," Worth said. Even offices, shuttered for the last two months, were able to achieve collection rates of 92%, which is only 1% down from April. On the retail end, free-standing retail centres were able to collection 70% of a typical month and 18% of payments were approved for deferral. The essential businesses, such as grocery stores and drug stores were able to keep the collection rates relatively high. When considering shopping centre REITs, only 48% of rents were collected in May, which is not surprising, given than many major retail anchors have been filing for bankruptcy and malls have been shuttered entirely.
(Read)

Determining Safe Picks



As the pandemic crisis and its effect on the economy continues, some investors see this time as the "buying opportunity of a century". Other investors rather pause investment activity and wait for clarity. For those investors, who are willing to move forward, closing transactions has become challenging and was many times cancelled, as buyers are unable to secure financing. Data provider Trepp predicts commercial real estate loans made by banks will hit a loss rate as high as 2.5% over the next five years due to coronavirus-induced economic troubles. Another notable trend is that most investors interesting in deploying equity are rather staying away from the two asset classes that have been battered during the slowdown, namely retail and lodging. Randy Hubschmidt, managing partner of a multi-family office, expects that the office sector may be less attractive to investors in the near term, because of the temporary work-from-home shift and the expected long-term effects on work location. Among the more favourable and appealing asset classes are multifamily, student housing, senior housing and industrial. CBRE supports this claim, saying that industrial assets will be able to hold their rental levels steady and that the overall sector will gain from e-commerce and diversifying retail supply chains. Richard Barkham, CBRE's global chief economist and head of Americas research says that "for many sectors, the recovery should be underway before the end of this year, driven by pent-up demand" and that "although the near term looks brutal, the medium-term outlook is more favourable because there are no structural flaws in the macro economy or in commercial real estate."

(Read)

09-7774400 :פקס • 09-7774444 :טלפון • 4310101 רעננה • 1155 .ת.ד • 10 רחוב זרחין • פרופימקס בע"מ
PROFIMEX LTD. • 10 Zarhin Street • P.O.B 1155 • Ra'anana 4310101 Israel • Tel: +972-9-7774444 • Fax: +972-9-7774400
profimex@profimex.com • www.profimex.com