Marcus & Millichap Capital Corporation

Cap Alert

LATEST DEBT MARKET INFORMATION

May 29, 2020

The Economic Impact of COVID-19 Reverberates Through Asset Classes

As some parts of the U.S. inch cautiously toward a new normal, real estate owners and investors are beginning to absorb the shock of the COVID-19 pandemic. The economic impact is reverberating through all asset classes, and some are proving more resilient than others.

Multifamily is holding steady, with nearly 91 percent of apartment households making a full or partial payment by May 20, according to the National Multifamily Housing Council's survey of 11.4 million units nationwide. Renters are getting relief from extra unemployment benefits, which continue through the end of July, and may be extended. Senate Majority Leader Mitch McConnell said this week that another round of economic relief is likely, but a Senate bill would be "much more narrowly focused" than the $3 trillion version passed by the House.

Industrial properties, buoyed by the growth in ecommerce, have the best outlook for occupancy and rents, according to a recent forecast by the Urban Land Institute. Data centers will see higher demand as businesses upgrade networks, modernize data platforms and shift more storage to the cloud.

In the office sector, occupiers are likely to shrink their footprints as COVID-19 accelerates the trend toward a decentralized workforce. Twitter recently told employees they could work from home indefinitely, and Facebook said it expects up to half its staff to work remotely in the next five to ten years. The shift could spark demand for suburban office space, or well-designed, safety-enhanced co-working space in urban centers. Major occupiers will likely favor green buildings offering cleaner HVAC systems, windows that open, wider-spaced workstations and robust health and safety features.

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The outlook for retail is mixed. Centers anchored by supermarkets and drug stores are humming along while indoor malls continue their pre-COVID decline. Nieman Marcus, JCPenney and J Crew all declared bankruptcy this month. Meanwhile, the hard-hit hospitality sector is showing a glimmer of hope, with a 32.4 percent occupancy rate for the week ending May 16, up from a low of 21 percent for the week ending April 11, according to The Wall Street Journal. ULI expects hotel occupancies to grow to nearly 60 percent by 2022.

We are continuing to see new origination from Fannie Mae and Freddie Mac, local and regional banks, life companies and credit unions. Lenders are requiring more cash reserves, higher debt coverages and higher debt yields, and looking for sponsors with stellar balance sheets and/or prime properties in the best locations. CMBS activity has slowed significantly, given the uncertainty around the cost of capital and concerns about cash flow of the underlying assets. Meanwhile, servicers are occupied with CMBS borrowers seeking forbearance, with $19.5 billion of CMBS loans transferred to special servicing in April and May, according to Moody's. Without better price discovery, we expect CMBS to remain dormant in the short-term. Especially in this environment, consider reaching out to your MMCC Capital advisor, who can help you think through your portfolio and structure a plan to navigate this dynamic landscape.

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RECENT TRANSACTIONS

STUDENT HOUSING
Kent, OH
$8,470,000
3.20% Fixed
10-yr term/30-yr amort.
Life Co Execution

NET LEASE
Weatherford, OK
$3,744,444
3.93% Fixed
Rate resets in year 6
10-yr term/30-yr amort.

OFFICE
Marlborough, MA
$2,587,500
3.75% Fixed
10-yr term/30-yr amort.
Rate lock expired, floated for a week prior to close

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