Marcus & Millichap
Capital Corporation

Cap Alert

LATEST DEBT MARKET INFORMATION

June 19, 2020

As Consumer Behavior Shifts, What Are the Implications for Commercial Real Estate?

Investors enjoyed some positive economic signs this week. Retail sales surged a seasonally adjusted 17.7 percent in May as lockdowns eased. Clothing stores, furniture stores and bars and restaurants all showed big gains. Weekly jobless claims appear to be leveling off, and industrial production rose last month on an uptick in manufacturing activity. The outlook for construction improved: Building permits rose more than expected, weekly mortgage applications soared to the highest level in 11 years, and home builder confidence hit an all-time high.

In Senate testimony Tuesday, Federal Reserve Chairman Jerome Powell said he expects the economy to rebound but eventually settle at a lower level of activity. He indicated support for more federal relief, noting that the funds "can make a critical difference not just in helping families and businesses in a time of need, but also in limiting long-lasting damage to our economy." The extra $600 a week in unemployment benefits that started in April will expire July 31.

Consumer spending will determine the shape of the rebound, as it drives two-thirds of economic output.

Consumer spending will determine the shape of the rebound, as it drives two-thirds of economic output, and will obviously be affected by how and when the pandemic is contained. We are already seeing clear signs of how COVID-19 is shifting consumer behavior, with major implications for commercial real estate. Here are a few trends we are watching:

- Young renters are moving back home. A Zillow analysis found 2.7 million adults – more than 80 percent between the ages of 18 and 25 – moved in with parents or grandparents in March and April. This trend could lead to an estimated $726 million in lost rent each month.

- Companies and workers are making new demands on office space, expecting more space per employee, robust social distancing measures and higher levels of cleaning. At the same time, there are concerns about the health impact of exposure to chemicals being used more frequently to sanitize and disinfect spaces, Bloomberg reported. Meanwhile, suburban Silicon Valley may benefit as big tech firms exit San Francisco to save money and help employees avoid commutes, according to The Wall Street Journal.

- Business travelers have been hunkered down since March, and that's having a huge impact on hotels. As many as 25,000 hotel room in New York City, or 20 percent of the total, may not reopen, according to the Journal. On the upside, this will help reduce oversupply, setting the stage for a strong rebound down the road. Watch for more hotels to reposition to multifamily housing.

- Given the impact of COVID-19 on large cities such as San Francisco and New York, lenders may show more interest in states with more business-friendly environments, as well as secondary and tertiary markets benefitting from corporate relocations.

Cap Alert

LATEST DEBT MARKET INFORMATION

In lending, regional and local banks and credit unions continue to be active. The credit box remains tight but is showing signs of loosening, with 55 to 65 percent maximum leverage, full-recourse loans, and rates ranging from 3.5 to 4.5 percent. Larger banks are focused on high-quality assets with institutional borrowers. As for Agency lending, inflows are nearing pre-COVID levels and acquisition finance is approaching 25 percent of new business, a positive for transaction activity. Debt service reserve requirements have been dialed back, necessitating less upfront cash, and making financing more accretive to the buyer's return bogey. Specialty products, such as student housing and lease-up programs, are starting to move back onto Freddie's screen and are being reviewed selectively. A few conduits are expected to price over the next few weeks, but these are backed by loans written before the pandemic hit. We expect CMBS issuance to be slow until at least September.

As more lenders re-enter the market offering historically low rates, MMCC continues to partner with clients and agents to provide the best options for their commercial real estate needs. Contact your MMCC advisor for the latest updates.

RECENT TRANSACTIONS

MULTIFAMILY

Phoenix, AZ
$9,500,000
3.30% Fixed
2 yrs I.O.
10-yr term/30-yr amort.
Non-Recourse
Rate and terms stayed the same during COVID

RETAIL

Bolingbrook, IL
$4,312,500
3.16% Fixed
15-yr term/25-yr amort.
18 months I.O.
25% Recourse

MANUFACTURED HOUSING

Gering, NE
$2,165,296
4.25% Fixed
10-yr term/30-yr amort.
Property located in a tertiary market

MarcusMillichap.com/financing

NMLS: 164121 | AZ Lic: BK-903255 23975 Park Sorrento | Suite 400 | Calabasas, CA 91302 | Telephone: (818) 212-2250