

T H E
WeeklyTAKE

MARKET UPDATES

COVID-19 Impacts on U.S. Commercial Real Estate May 8, 2020

WEEK IN REVIEW

April Rent Collections Better Than Expected; True Test Comes in May

- The global economy is showing signs of life, but the commercial real estate market will take longer to recover, with significant declines in rental rates forecasted for the remainder of 2020.
- Office tenants are focused on successfully reopening the workplace and strengthening relationships with their landlords. Only the most financially distressed tenants are receiving rent forbearance.
- Many industrial tenants have a strong foundation to weather the storm and are picking up tailwinds, so rent collections have largely been unaffected, except from some small flex operators.
- Retail rent collections vary, with the lowest rates in malls, but very early May data indicates collections may be better than anticipated in states that have begun to reopen.
- Multifamily owners are accepting partial and/or deferred rent payments where necessary; government benefits are also providing vital assistance to renters.
- Data centers are essential to companies now depending on a productive virtual workforce, so demand remains strong and rents have largely been unaffected.
- A national holiday in China this week revealed a sharp decrease in domestic travel compared with the same time last year, as citizens emerge from the COVID-19 lockdown.

ECONOMY

Leading Indicators Flicker Back to Life, But Rental Rates Expected to Fall

The global economy is on the brink of a restart. Even before the end of lockdown, several economic indicators pointed to the revival ahead. From the financial markets, the spread of BBB-rated corporate bonds over Treasuries fell to 298 basis points (bps), down from 340 bps last week and 477 bps at the peak of the COVID-19 crisis. From world trade, the Baltic Dry Index of shipping rates is up to 32% from its trough on February 11. Most compelling perhaps is that mortgage applications in the U.S. are up 20% from a low on April 10, indicating that the housing market is tentatively coming back to life. It will take awhile for this recovery to gain momentum and even longer to drive the commercial real estate market. CBRE provisionally estimates declines in average rents by sector throughout the rest of the year as follows: industrial -3.5%; retail (neighborhood,

T H E WeeklyTAKE

community & strip centers only) -8.5%; office -10%, and multifamily -10%. Apart from retail, where the rent decline will occur over a longer period, rents will begin to stabilize around mid-2021.

OFFICE

Reopening the Workplace Takes Precedence Over Rent Abatement

Most office tenants continue to pay their rent, helping provide a favorable degree of stability for the office sector. As governments reopen their economies, most tenants are keenly focused on taking the appropriate steps to reopen their workplaces. Generally, requests for rent relief remain limited. While rent collections were strong in April, they may slightly slip in May as the COVID-19 crisis persists and more tenants become financially distressed. Some landlords are deferring rent payments until 2021 in exchange for lease extensions.

INDUSTRIAL

Landlords Collect Majority of Rents, Especially from Larger Tenants

Rent collection rates for industrial assets were solid in April and May at 85% to 95%. Only small flex operators (under 10,000 square feet) —typically small retail and wholesale businesses—are struggling to meet rent payments. Landlords and occupiers are working on ways to ensure continued occupancy, with rent deferrals in exchange for lease extensions remaining a popular method. Near record-low vacancies have kept rental rates steady and prevented many tenants from entering primary markets, but this may change if the downturn persists.

RETAIL

Rent Collections Slow, Vary by Product Type

April rent collections were highest for grocery-anchored centers and lowest for malls and outlet centers. Many rent payments were unusually late, trickling in at the end of the month as retailers awaited stimulus payments or drew down on credit facilities to cover expenses. Slower rent collection was expected in May, but an early survey of shopping center managers indicated better-than-anticipated collection rates for the first six days of the month in states that began the phased reopening of retail. Most of the rent negotiations during forced closures have been for deferrals in exchange for lease extensions; however, some landlords are considering rent abatement for food & beverage and mom & pop operators.

MULTIFAMILY

Rent Collections Sustained by Stimulus & Modest Rent Reductions

Most multifamily renters paid their rent in April. The National Multifamily Housing Council reported that 89% of renters had made full or partial rent payments by April 19, only 4 percentage points lower than in March and from a year ago. Much concern remains for May, but owners generally believe that enhanced unemployment and stimulus checks will provide enough short-term financial assistance for residents who have lost jobs and income. Additionally, most multifamily owners will work with residents in need, developing short-term rent deferral plans. The plans vary, but most have renters making partial payments for the next few months and

T H E WeeklyTAKE

then begin paying deferred rent. Eviction moratoriums are widespread—either by law or by general practice. Owners have dropped rents modestly to maintain occupancy. April rents were 1% lower than in March. Owners report much stronger leasing activity in late April and early May.

DATA CENTERS

Essential Data Centers Maintain Normal Rent Activity

Data centers remain open and, unlike other types of real estate, continue to operate without interruption, though protocol changes have been made due to COVID-19. Very few tenants have requested rent relief, as data services remain essential for their clients and for their internal operations. Withholding rent could cause service interruptions for a very risk-averse client base. There has been a substantial spike in leasing activity in several of the primary data center markets, as infrastructure-as-a-service (IaaS) companies see increased demand for their services.

ASIA PACIFIC

National Holiday Sees Less Travel Demand

China's "Mini Golden Week" from May 1 to 5 had far fewer people traveling compared with previous years. Early estimates are an average of 23.4 million daily travelers during the holiday period—just 35% of last year's total. Restrictions on inter-provincial visits, requirements such as pre-registration to travel and the reopening of 70% of China's major tourist attractions led many people to take vacations closer to home. Data from Chinese travel service platform Ctrip shows that most holiday bookings were for domestic and short-haul travel—causing a 200% month-over-month increase in bookings with local tour guides in many provinces—and were made with relatively short notice. Luxury properties accounted for about half of hotel bookings compared with 40% four years ago, perhaps indicating an increasing willingness to spend on quality accommodation while room rates are low.

CONTACTS:

[Richard Barkham](#)

[Spencer Levy](#)

[Julie Whelan](#)