Real Estate Industry Alerts Tracker - November 20, 2020 Issue

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NYC Companies Have Been the Least Successful in Bringing Employees Back to the Office

Compared to other major regions across the country, New York City companies have been the slowest in bringing their employees back to the office. In other metropolitan areas such as major cities in Texas, most employees have returned to the workplace. According to Kastle Systems' Return to Work Barometer, which monitors key-card and fob office access data from 3,600 buildings and 41,000 businesses across 47 states, about 25% of workers in 10 of the largest U.S. metro areas returned to work in the last week. In New York City, however, only 13% of employees worked from the office during the same period.

Kastle's Return to Work Barometer may be found here.

Industrial Sector Remains Top CRE Performer

While most of the other commercial real estate (CRE) sectors continue to suffer from the effects of the pandemic, which include increasing vacancy rates and declining rents, the industrial sector continues to outperform other CRE sectors. This is in part due to the continued rise of e-commerce that relies heavily on warehouse and distribution centers, which did not experience any change in vacancy rates in the third quarter and, according to Moody's Analytics, posted a positive net absorption for the 40th consecutive quarter.

Additional information may be found here.

Office Market Decline Continues During the Third Quarter

The pandemic and resulting shifts to working remotely have resulted in huge declines in the office market as tenants continue to vacate office spaces. Three major brokers reported significant negative absorption rates (more space has been vacated than being leased) in the third quarter, as well as year to date. CBRE has reported negative absorption of 33.5 million square feet for the third quarter, which it claimed was the largest quarterly decline in nearly two decades. Cushman and Wakefield calculated the third quarter negative absorption rate at 41.2 million square feet, which coupled with the second quarter rate of 23 million square feet results in a negative absorption rate of more than 60 million square feet for the year. JLL’s year to date negative absorption rate estimate was lower, at 42 million square feet, but it predicted more vacancies for the remainder of the year.

Additional information may be found here.

Multifamily Rents Decline During Third Quarter

According to Moody’s Analytics Real Estate Information Services (REIS), national asking rents and effective rents declined at record pace in the third quarter – by 1.8% and 1.9% respectively. This represents the largest quarterly decline in more than 30 years. In addition to falling asking rates, vacancy rates increased by ten basis points in the third quarter to 5%. The long-term average vacancy rate in the sector, which ranges from 5.2% to 5.4%, is the highest in more than eight years. At the end of last year, prior to the pandemic, the rate was 4.7%.

Additional Information may be found here.

Delinquency Rates for Hotel Loans Continue to Drop But Pressures Remain

According to Trepp, there are more than 3,100 CMBS loans backed by hotel properties in the United States. The lodging sector is third-largest property type by outstanding balance in the CMBS market, with more than $87 billion in loans and representing 16% of the overall CMBS market. Recent data revealed that, after reaching a record high of 24.3% in June, the delinquency rate for hotel loans has continued to fall. In October, the delinquency rate dropped 351 basis points from September, to 19.43%. Within the hotel sector, limited service hotels had the highest amount of distress with delinquencies reaching 27.23% in July until falling slightly to 24.83% in October. Extended stay and full service hotels, on the other hand, experienced delinquency rates of 14.59% and 17.46%, respectively, during the month of October. While the decline in delinquency rates is encouraging, Trepp’s research notes that many loans that have reverted to “current” status have done so due to lender forbearances as well as lender approval to utilizeAccording to Trepp, there are more than 3,100 CMBS loans backed by hotel properties in the United States. The lodging sector is third-largest property type by outstanding balance in the CMBS market, with more than $87 billion in loans and representing 16% of the overall CMBS market. Recent data revealed that, after reaching a record high of 24.3% in June, the delinquency rate for hotel loans has continued to fall. In October, the delinquency rate dropped 351 basis points to 19.43% from September. Within the hotel sector, limited service hotels had the highest amount of distress with delinquencies reaching 27.23% in July until falling slightly to 24.83% in October. Extended stay and full service hotels, on the other hand, experienced delinquency rates of 14.59% and 17.46%, respectively, during the month of October.

While the decline in delinquency rates is encouraging, Trepp’s research notes that many loans that have reverted to “current” status have done so due to lender forbearances as well as lender approval to utilize reserves for debt service payments. As of September, more than 64% of forbearances granted were for hotel sector loans, totaling $8.5 billion. Equally concerning is the fact that almost one-half of hotel loans are on servicer watch lists, with the percentage rising each month since February.reserves for debt service payments. As of September, more than 64% of forbearances granted were for hotel sector loans, totaling $8.5 billion. Equally concerning is the fact that almost one-half of hotel loans are on servicer watch lists, with the percentage rising each month since February.

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Recent Measures in the District of Columbia Negatively Impact Opportunity Zone Investment Returns

On November 20, 2020, Kelley Drye published a client advisory on recent regulations and legislation in the District of Columbia that will likely result in a reduction in expected investment returns and create overly burdensome government oversight that could discourage Opportunity Zone investments in the District.

To read our full advisory, click here.