Commercial Real Estate Markets Update (March 2020)

Fears over COVID-19 have caused a flight to safety that has seen interest rates reach a record low. The economy as a whole stands well-positioned to handle a pandemic-induced shock with strong job creation and growth drivers, however, there is diminished confidence and the expectation of an economic decline in the second quarter. Volatility in the financial markets reiterates the stability of commercial real estate and the 5-7% yields for institutional investors. Still, speculators wait to see the real effects on the commercial real estate industry.

Below are key takeaways from the report:

Coronavirus Outbreak Special Report – *Marcus & Millichap* – Report Link
Market Update: Coronavirus Impact on Real Estate – *Marcus & Millichap* – Report Link

Coronavirus Outbreak Special Report

Marcus & Millichap

- Real Estate investments are showing an extremely low cost of capital and some of the highest levered returns in 30 years with long-term Treasury rates hitting an all-time low
- There is a lack of clarity in the real estate investment community, but fundamentals in the industry remain strong, backed by a solid economic footing to be able to deal with these headwinds
- Barring a major economic disruption, commercial real estate yields and investment activity should remain stable once market volatility subsides, most notably refinancing activity
- Hotels will face a serious impact with weakened demand. Industrial, being the sector with the most momentum, will be hit by the limited imports and reduced consumer spending. Office will see little direct impact in the short term, and apartments should continue a favorable performance. As a whole, expansion plans from most companies will be put on hold.

Market Update: Coronavirus Impact on Real Estate

Marcus & Millichap

- The Fed followed their 50 bp rate cut on March 3 with another rate cut back to 0 – 0.25% on March 13 in an attempt to spur economic growth
- Comparing real estate to the stock market in this time shows the advantage of real estate investments, something institutional investors will be wary of coming out of this. An investment in real estate made 20 years ago has shown 359% in average total return, while the stock market has delivered 115%.
- The arbitrage opportunity between the 10-year Treasury and average cap rates has never been higher at 560 bps, lifting levered returns significantly in current conditions