The Global Pandemic

Unprecedented economic disruption is met with an unprecedented policy response. CRE should hold up relatively well.

April 2020

Unprecedented Economic Shutdown

- Current job losses are an intentional transfer of payroll from private to public sector – in the short term, incomes are more important than unemployment
- Traditional econometric models are less valuable in this environment; probable economic paths are dependent on science and policy-driven outcomes; fat tail risk
- Economic Dislocation= f(Duration, Diffusion, Depth)
    - Duration is the top concern…and will impact diffusion and depth…which impacts the ability to restart/rebuild the economy
    - Any plan to open the economy back up will likely be in stages…predicated on aggressive testing, therapeutics, vaccine

Extraordinary Policy Response

- Goal is to support incomes and limit sector spillovers
- FED's "QE unlimited" is a firebreak preventing negative feedback loops with the real economy
- More stimulus is needed to support HHs and Businesses…base case expectation is for "whatever-it-takes" policy

Capital Markets and CRE

- Commercial real estate is unlikely to fully reprice based on credit spreads…low leverage, liquidity, and expectations of temporary (vs permanent) impact on NOI
- Values may erode based on short-term rent declines (though appraisers slow to react)
- Longer term, relatively stable cash flows make real estate more favored asset class
- Hotels and retail see highly binary outcomes. Accelerates capital rotation to industrial and apartments.
- Short term, GSEs support apartment pricing; long term, lower interest rates suggest lower going-in yields

MF Market Will Weather Relatively Well

- Strong operational and low financial leverage will limit impact of short-term decline in cash flows
- Housing is a necessity, so demand holds up better than sectors tied to discretionary spending
- But supply cycle will exacerbate near-term competitive pricing pressures

Please contact research@gid.com for additional information.