

April 14, 2020

DJIA: 23,950 | RMZ: 1,017 | 10-Year T-Note: 0.75%

 Green Street Advisors

Missing Rents and Declining Property Values

The Covid-19 pandemic has wrought tremendous economic pain, bringing the world's most powerful economy to its knees in unprecedented fashion and inducing what is likely to be an abrupt and deep recession. As a result of governments barring assembly of people and shutting most businesses, schools, and offices, commercial real estate has become a major economic casualty. The degree of pain forthcoming in terms of rent deferral, rent relief, tenant bankruptcies and financial distress inflicts a major blow to the fragile ecosystem of tenants, landlords, and lenders. **This report provides some initial guesswork across property types on what might happen in the near-term with rent payments (or lack thereof) and previews forthcoming reductions in real estate values and NAVs** that will soon be published at the sector level. In addition, a *Heard on the Beach* will be published soon that evaluates the medium-term and long-term impacts of Covid-19 across property types.

Rents Go Missing:

Our evolving macroeconomic view used as a base case for deriving real estate forecasts is best characterized as “weaker than consensus” as it assumes an expected return to 2019 GDP in mid-'22, but with a larger-than-normal range of outcomes. As a result of the economic hardships at hand, combined with the stresses in the commercial real estate ecosystem, missed rent payments and requests for rent relief are huge near-term issues.

The amount of rent that a given REIT will collect in the near term (here defined as 2Q20) vs. its normal rent roll will greatly depend on property type, as presented in the accompanying chart. Deferrals will be commonplace, with “rent relief” being the elephant in the room as some deferrals are ultimately likely to wind up as either near-term or long-term rent relief.

A massive game of “kick the can down the road” has now commenced, and levels of relief are likely to ultimately be worse than what companies may initially indicate.

Disclosures from public real estate companies in Europe plus early US REIT comments already show that many landlords will need to delve into complex negotiations with tenants and weigh the trade-off between near-term rent collection and medium-term tenant viability.

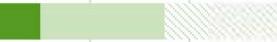
A few sector-level comments on rent collection follow, but it is worth noting that our **cash same-property NOI estimates will be revised markedly downward in upcoming sector-specific reports**. Some of the numbers will be startling as cash in the door will often be a fraction of expected rent in 2020. Our analytical focus will remain squarely on cash NOI as the GAAP accounting for items such as “deferred rent” is going to make a mess out of upcoming REIT earnings reports.

The Check is Not in the Mail: The steep Covid-19 induced decline in economic activity is taking an outsized toll on real estate. At the top of near-term concerns are liquidity risks for owners as rent payments will be falling well short of the norm in virtually every sector. Visible proof of asset value decline is also emerging in many sectors and our REIT NAVs will shortly be adjusted accordingly. However, we will not go as far yet as the asset value decline implied by REIT share prices.

The 2Q20 Rent Picture: Green St. Estimates

■ % Current ■ % Deferred ■ % Forgiven ■ Current-UK/Eur.

Comments

Mall					<ul style="list-style-type: none"> Related Companies collected only 26% of April retail rents U.K. a good indicator for North American mall collections
Strip Ctr.					<ul style="list-style-type: none"> Tenants big and small are withholding rent payments, but smaller tenants will ultimately see the most rent relief
Net Lease					<ul style="list-style-type: none"> SRC collected 60% of April rent (as of 04/13) and expects to defer ~25% of rent (total requests = 42% of rent); closures will be painful
Office					<ul style="list-style-type: none"> ~30% of 2Q20 rent to be deferred / forgiven; small tenants riskier Retail and parking rents (~3% of total) likely to be forgiven

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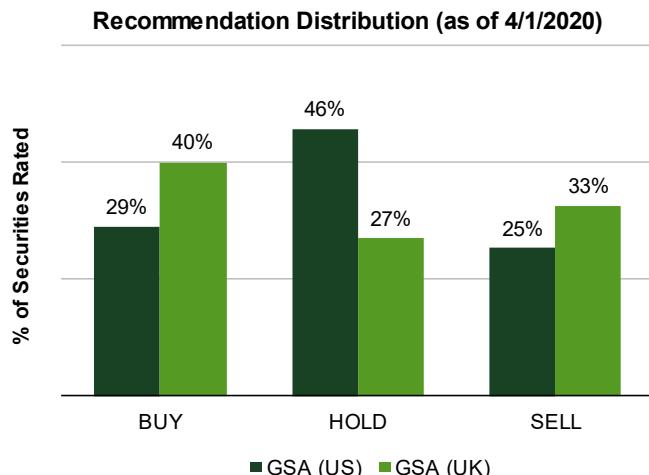
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Year ³	Total Return of Green Street's Recommendations ^{1,2}			
	Buy	Hold	Sell	Universe
2020 YTD	-25.8%	-32.8%	-42.4%	-33.3%
2019	31.6%	22.4%	17.8%	24.0%
2018	-5.1%	-6.6%	-9.2%	-7.0%
2017	6.4%	0.2%	2.1%	2.6%
2016	14.9%	14.7%	13.1%	14.4%
2015	8.3%	0.9%	-1.7%	2.4%
2014	41.6%	31.5%	27.3%	33.3%
2013	4.1%	0.6%	1.7%	2.2%
2012	24.5%	24.7%	18.9%	23.0%
2011	18.9%	7.6%	-4.7%	7.6%
2010	43.3%	32.8%	26.6%	33.8%
2009	59.0%	47.7%	6.0%	37.9%
2008	-28.1%	-30.9%	-52.6%	-37.3%
2007	-6.9%	-22.4%	-27.8%	-19.7%
2006	45.8%	29.6%	19.5%	31.6%
2005	26.3%	18.5%	-1.8%	15.9%
2004	42.8%	28.7%	16.4%	29.4%
2003	43.3%	37.4%	21.8%	34.8%
2002	17.3%	2.8%	2.6%	5.4%
2001	34.9%	19.1%	13.0%	21.1%
2000	53.4%	28.9%	5.9%	29.6%
1999	12.3%	-9.0%	-20.5%	-6.9%
1998	-1.6%	-15.1%	-15.5%	-12.1%
1997	36.7%	14.8%	7.2%	18.3%
1996	47.6%	30.7%	18.9%	32.1%
1995	22.9%	13.9%	0.5%	13.5%
1994	20.8%	-0.6%	-8.7%	3.1%
1993	27.3%	4.7%	8.1%	12.1%
Cumulative Total Return	21133.4%	1353.7%	42.0%	1617.6%
Annualized	21.8%	10.4%	1.3%	11.0%

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