ULI Chicago

ULI Chicago's "Front Stoop Series"
Navigating Capital Markets Disruption
July 16, 2020

A Conversation With:
Jeffrey Altenau, *Executive Managing Director*, Cushman & Wakefield
David Bitner, *VP, Americas Head of Capital Markets Research*, Cushman & Wakefield
Thomas Sitz, *Executive Director*, Cushman & Wakefield

On July 16, ULI Chicago members convened for the Front Stoop Series to discuss "Navigating Capital Markets Disruption". The conversation was led by Jeffrey Altenau, *Executive Managing Director*, Cushman & Wakefield, David Bitner, *VP, Americas Head of Capital Markets Research*, Cushman & Wakefield, and Thomas Sitz, *Executive Director*, Cushman & Wakefield. Highlights from the conversation are presented below:

Transaction Activity and Asset Classes

Transaction activity from January-March going into COVID was as busy as ever. For Q2, Real Capital Analytics data shows US real estate transactions across all sectors was down ~70% but there are differences among asset classes with industrial down only ~60% while hospitality was down ~90%. Industrial and multifamily have continued strength with continued growth of e-commerce and a need for housing during the pandemic. In the office sector, there is now a wider difference between core vs value-add. Core continues to see strong investor and lender interest. For value add, it is more difficult to obtain financing. Retail and hospitality have been extremely difficult to obtain financing.

Economic data for May and June is way better than expected but July and August may be weaker because of shutdowns however still better than expected.

Pricing Adjustments and Case Studies

No adjustments were made on core assets and up to 20% adjustment on value add. After a 5-10% price adjustment, although buyers are willing to do deals, you start losing sellers. For example, C.H. Robinson building in Lincoln Yards had a strong demand for financing on recently marketed core office assets. Additionally, Mondalez HQ Sale was marketed off market pre-COVID and sold to a new buyer post-COVID without any pricing adjustment. 225 W. Wacker was also completed due diligence pre-COVID and closed post-COVID with an approximately 5% price adjustment. As a lesson from the last downturn, the buyer indicated it missed opportunities during last downturn by fear of buying during downturn and therefore proceeded with the purchase. The buyer required a single lender to eliminate any syndication risk and obtained a floating rate financing with a LIBOR floor.

Debt Markets

The debt markets have started to open up. Core deals are being marketed, while value add deals are primarily off market. If you have term and credit for industrial or office, there is financing available. But for value add, not much financing available. For multifamily, agencies are very aggressive. Life companies have been very active on terms similar to pre-COVID terms. Rate around 3% or less. CMBS is starting to pick up with 60-65% leverage @ mid-3% rate. Loans originated pre-Closing have continued to be securitized post-COVID but loans originated post-COVID haven't been securitized yet. Additionally, foreign banks have been lending more than domestic banks. Foreign investors are more optimistic than domestic investors given COVID has been managed better other countries like South Korea.

Summary written by Devan Popat, *Partner and Real Estate Attorney*, Katten Muchin Rosenman LLP