CIBA Real Estate

Commercial Newsletter

Monthly Newsletter for Owners and Tenants

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Business Seminars

Monrovia Business Seminar
TBD

MADIA TECH LAUNCH
TBD

Monrovia Kiwanis
TBD

Duarte Kiwanis
TBD

What's Happening Right Now in Our Financing Market?

With so much having changed now in the commercial real estate market since March, let's take a look at how all of this has now impacted our financing market.

As would be expected, lenders have become more cautious in granting loans, and the retail and hospitality properties have been leading the pack with loan delinquencies, too. In addition, these kinds of properties represent the ones that the lenders are the most cautious about lending on also.

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Quotes for the Month

"If your ship doesn't come in, swim out to meet it!" – Jonathan Winters

"Your time is limited, so don't waste it living someone else's life." – Steve Jobs

"Success is walking from failure to failure with no loss of enthusiasm." – Winston Churchill

Apartment Industry Nears 'Breaking Point' on Rents, Executives Say

First-Week Collection Rate Drops to Lowest Since April, According to NMHC Data
By John Doherty-CoStar News September 9, 2020

The lowest percentage of apartment dwellers paid rent in the first week of the month since April, another sign of what industry executives say is a slow deterioration of the financial strength of the rental market.

The data from the nation's biggest tracker of rent payments portends a further crumbling in the ability of apartment dwellers to make rent as demand has dropped for high-priced units in U.S. urban centers. A lack of rent payments means reduced cash flow for owners to pay mortgages, which could result in less money flowing to lenders.

About 76.4% of the 11.4 million renters tracked by the National Multifamily Housing Council paid up in September, fully or partially, through Sunday. That's more than 552,000 fewer renters that paid the same time last year, and it's the lowest percentage of renters to pay the first week of any month since April.

See Page 2 Evictions

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As we approached the end of the second quarter of this year, we experienced a slowdown in the number of overall loan applications, as people were coming to terms with trying to understand just what the total, overall impact of the pandemic would mean to commercial real estate, and people were cautious about initiating new commercial real estate transactions, too.

Keeping this in mind, according to industry media source GlobeSt.com, commercial real estate loan closings were down 21% in the second quarter of this year, when compared with in the second quarter of 2019. In addition, the delinquency rate on commercial mortgage-backed securities loans (CMBS) increased to approximately 6.4% in June, which was up from just 1.2% in March. However, also measured in June, these delinquencies reached 22% within the hotel sector, and 17% for other retail properties.

Overall, it's been the commercial banks that have risen up to fund approximately 70% of the loans on commercial properties that were closed in the second quarter, which is more than double the percentage of loans in the marketplace that they would normally be closing. In addition, the life insurance companies were responsible for funding approximately 23% of loan originations, which was a slight decrease from the percentage of loans that they funded during the second quarter of 2019. In addition to this, these life insurance loans tended to be secured with a loan-to-value ratio of 60% or less on commercial properties.

CMBS loans saw the biggest overall reduction in new loan activity, and they're now at their slowest level since 2016.

In putting all of this together in looking to the future, lenders are expected to remain cautious and conservative when granting new loans. The apartment sector has been the one that lenders have been the most comfortable in granting new loans within, followed by industrial, but the lenders will definitely be keeping a cautious eye on the economic horizon when granting new loans in the future.

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The rate is a 4.8% drop from the same time last year and 2.9% less than the first week of August. Only the 60% rate recorded in the first week of April has been worse since NMHC, an industry lobbying group based in Washington, D.C., began tracking the rate in March.

For months, NMHC released relatively high payment figures. The data tends to reflect the biggest apartment owners in the country, which can give a distorted picture because it captures properties that often can have high numbers of white-collar workers who are able to keep their jobs by working at home.

Brian Zrimsek, a principal at MRI Software who helps collect the rent payment data for NMHC's survey, said his take is that the good luck is reaching its end.

"I don't think any of us can take our foot off the accelerator," he said Wednesday during an NMHC webinar. "A large portion of our residents do have some savings, but I think that's reaching its breaking point."

The sense of steady deterioration in apartment rental payments has gotten stronger ever since the $600 a week enhanced federal unemployment insurance benefits ran out at the end of July.

But first-week collections have inched up throughout every month since the pandemic started, with most months ending with over 94% of residents paying up. And landlords have reported the number of tenants asking to make partial payments or enter payment plans has remained low

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In part, that may be NMHC's methodology. The group collects data from five property management software companies: Yardi, ResMan, MRI, Entrata and RealPage. Those companies collect their own data from the largest U.S. landlords, such as Aimco, AvalonBay Communities and UDR, not the smaller and midsized players across the country that executives say have been hit hardest by the pandemic and unemployment.

James Schloemer, NMHC's treasurer and CEO of Continental Properties of Menomonee, Wisconsin, said collection rates vary region by region and property type by property type.

"We own only properties we develop ourselves," he said on the webinar. Those properties are largely workforce housing assets, where residents are paying only 20% of their income on rent, or about half of what tenants pay in some markets.

He said that in some markets hurt by high unemployment, collection rates are down.

"In markets in Florida, like Orlando, or in Las Vegas, rent collection has been much more challenging."

NMHC has been lobbying Congress for another round of aid for renters and landlords similar to the Coronavirus Aid, Relief, and Economic Security Act that included the extra $600 a week unemployment benefit. But the group has also been opposed to federal eviction moratoriums like one issued by the Centers for Disease Control and Prevention last week that it says prevent landlords from effectively running their properties while allowing tenants to fall hopelessly behind in rent.

"The enactment of a nationwide eviction moratorium last week did nothing to help renters or alleviate the financial distress they are facing. Instead, it only is a stopgap measure that puts the entire housing finance system at jeopardy and saddles apartment residents with untenable levels of debt. Federal policymakers would have been better advised to continue to provide support as they successfully did through the CARES Act," NMHC President Doug Bibby said in a statement.

250 Duarte Rd, Unit B. Monrovia

- **2,400 SF Industrial Warehouse**
- **Asking Rate $1.15 PSF**
- **18 Ft Ceilings**
- **Professional Office Buildout**

823 S. Magnolia Ave., Monrovia CA

- **5,000 SF Industrial Warehouse**
- **Asking Rate $1.05 PSF**
- **12-14 Ft Ceilings**
- **Fenced Parking Lot**
- **1 Ground Level and 1 Dock high Loading Door**

407 W. Chestnut Ave., Monrovia CA

- **4,700 SF Industrial Warehouse**
- **Asking Rate $1.15 PSF**
- **16 Ft Ceilings**
- **Fenced Parking Lot**
- **1 Ground Level Loading Door**

FOR SALE

4 Units in Escrow

10-Unit Industrial Condominiums

Corner of Chestnut and Magnolia, Monrovia

Property Highlights

- *For Sale Industrial Condos*
- *Approx. 1,640 SF*
- *Price $575,000*
- *Electrical: 200 AMPS, 3 Phase*
- *Approximately 250SF office*
- *Clear Height is 18-20 Feet*
- *Ground Level Roll Up Door*
- Fully Fire Sprinklered
- Walking Distance to Old Town Monrovia
- Close Access to 210 and 605 Freeways
- Central HVAC for office (3 ton)

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Industrial Building For Sale

Property Highlights

- An Approx. 15,844 SF Industrial Building For Sale
- Building is split into two units (5,400 SF & 10,488 SF)
- Asking Price is $4,357,100 ($275 PSF)
- Property has secure fenced parking lot.
- Close to Myrtle Ave. & All Amenities
- Easy Access to 210, 605 & 10 Freeways
- Zoned M1

Shown by appointment only. Please call listing office to schedule an appointment.