Anchin eyes impact of lower than expected rents on valuations, profitability

The question is emerging as more corporations think about what going back to offices will look like, in New York City and beyond

Samantha Rowan | 4th June 2020, 5:05 pm

Anchin, Block & Anchin is talking with its clients about the impact that potential declines in office rental rates could have on commercial real estate valuations and profitability. The question is an important one for real estate fund managers and other institutional-backed capital focus on the office market, which has traditionally been a core asset class for

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real estate fund managers and other institutional-backed capital focus on the office market, which has traditionally been a core asset class for investment, noted **Rob Gilman**, partner.

"One of the questions we are asking is if rents will down or stay the same. If rents go down, the question becomes how much will rents drop?" Gilman said. "If rents decline by 30%, that has an impact on profitability. But if the decline is closer to 10%, that's more workable."

The question is emerging as more corporations think about what going back to offices will look like. It's also being more broadly applied to the real estate market. Anchin's client base has investments that span virtually every sector, with Gilman noting that expected performance is tied to individual asset classes.

"In the multifamily sector, they're collecting rents at the same rate, plus or minus what's been typical of any other month," Gilman said. While there's only data available so far for April and May, the hope is that June will follow a similar trajectory for the apartment sector. One concern, however,

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follow a similar trajectory for the apartment sector. One concern, however, is what will happen when government stimulus programs lapse, he added.

Generally speaking, apartment owners have reported strong collections. Indeed, **American Landmark**, a multifamily real estate investment specialist, reported that it received 98% of its rents in March, 97% in April and 100% in May. These rent collection figures are only 1% less than American Landmark's typical monthly collection rate, according to CEO **Joe Lubeck**.

"I give a lot of credit to our operating team and the fact that we had the vision almost two years ago to develop and enhance our online presence and to train for it, not knowing we'd have a pandemic," Lubeck told *REFI US*.

The story might be more complex on the commercial side, however.

"On the commercial side, we've seen the majority of tenants come back to their landlords and say, 'I need a deferral and I can pay the balance over the next year or few years,'" Gilman said. "Almost every tenant has requested this. That said, some of the landlords have given no concessions. The landlords have real estate taxes, they have employees

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concessions. The landlords have real estate taxes, they have employees that they need to pay and they can't afford to cut rents."

New York City is slated to open up in the next few days, but Gilman cautioned that what will be only a partial reopening. "We are going to be in for a long recovery," he added.

Most of the firm's clients are lucky in that they don't have imminent mortgage maturities, which gives them a longer runway to deal with refinancing. "For clients with a maturity in the next year, there's going to be difficulty. They'll need to come up with more equity," Gilman added.

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