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'Don't Panic': Boston CRE Pros Give Pandemic Investment Advice

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Real estate owners and investors should stay calm and carefully consider their options amid one of the greatest economic disruptions in Massachusetts' recent history, a trio of seasoned commercial real estate professionals said Thursday.

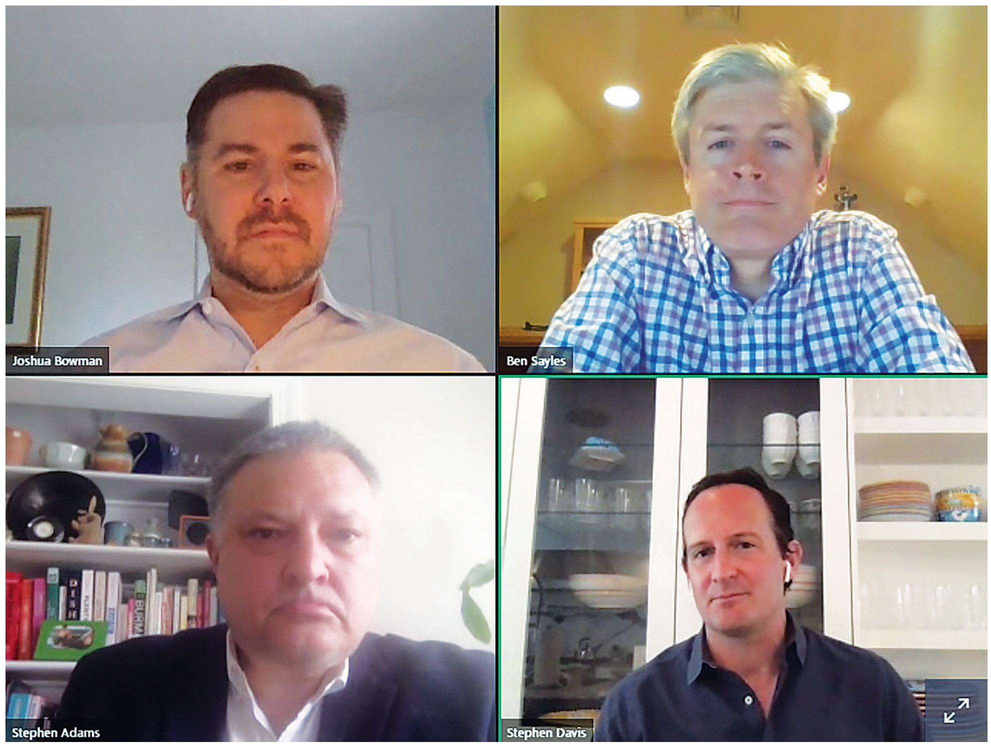
Their remarks came at a webinar hosted by The Warren Group, publisher of Banker & Tradesman, on the state of the commercial real estate industry in Massachusetts.

While the COVID-19 pandemic has frozen many parts of the capital markets, stopped construction and permitting in Boston, Cambridge and Somerville cold and put one in four Bay Staters out of work, real estate owners should exhibit strategic patience, JLL Capital Markets Senior Director Ben Sayles, The Davis Cos. managing director of development Stephen Davis and Sherin and Lodgen partner Josh Bowman all said.

"No sudden movements," Bowman, who chairs Sherin and Lodgen's hospitality practice group, said. "My advice would be to not panic. If you don't see a clear path right now, see what happens in the next month."

As a "new normal" settles in, patience will be rewarded, Sayles said.

"Hold on to your assets, if you can. Not only are they going to regain value, but if you stick to your business plan, they'll grow beyond your projections," he said.



Clockwise, from upper left: Josh Bowman, Ben Sayles, Stephen Davis and Banker & Tradesman commercial real estate editor and panel moderator Steve Adams.

With much less leverage in the financial system, real estate owners and investors can take comfort that there is much less risk of a market crash, Davis said.

"Maintain modest leverage at the asset level. It's going to allow you to do what Ben [Sayles] is describing," he said, noting that while many lenders are being creative with loan modifications and other ways to accommodate the crisis, "no amount of forbearance is infinite. … They have shareholders, as well."

In a Holding Pattern

Lenders and landlords alike are essentially waiting for the next three to six months to play out, Bowman said, to see how the local economy reforms after being severely disrupted by the pandemic and social distancing requirements.

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While many restaurant tenants are asking their landlords to waive the next few months of rent payments and shift to a percentage rent model, "landlords aren't there, yet," he said.

The problem, Sayles said, is exemplified by a tenant in one of JLL's clients' buildings.

"They need six to eight months of rent relief. Their business is super-viable, but nearly inoperable in the near term," he said.

In exchange for relief, the tenant offered to sign a 15-year lease with market-rate increases in rent along the way.

Lenders are accommodating many owners' needs for this kind of short-term flexibility with creativity, Davis said, offering options like short-term second mortgages and other options to shore up owners' cash positions.

For now, Sayles said, it looks unlikely that Massachusetts will see a wave of distressed asset acquisitions similar to that seen in the wake of the Great Recession despite significant interest from a range of investors, thanks to reluctance in the debt markets. One reason, Davis suggested, is that the future is so uncertain.

"There's an undeniable impact on the real economy [from the virus]," he said. "When you look at multifamily development or acquisition, it's impossible to ignore what's going on right now; we have to take a different view of those assets based on the forward run curve."

In the near future, Sayles said he expects industrial and multifamily properties will see the biggest investor interest; the former thanks to a big surge in online shopping brought on by infection worries, the latter thanks to the still-strong demand for housing and the assets' ability to generate immediate cashflow.

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