This Real Estate Practice Newsletter covers market activity and trends in certain regional market areas. Today is a brave, new world for the Healthcare Real Estate Industry. This newsletter will continue to focus on issues impacting the healthcare real estate market due to the COVID-19 pandemic and the efforts of reopening the sector.

To get more real estate information follow the link; https://askphc.com/real-estate-valuation-blog/. Our real estate blog contains any articles our team creates and is useful for all interested parties. Any other information about Pinnacle can be found here; https://askphc.com/

The PHC real estate group has complied articles via various sources such as CoStar, JLL, and Cushman & Wakefield that summarize expectations and performance during this period.

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CoStar commercial repeat sales indexes provided a first look at commercial real estate pricing trends based on 831 repeat sale pairs in the first quarter and more than 225,707 repeat sales since 1996. CoStar monitors the measure of commercial real estate repeat sales activity. When a property is sold more than once, CoStar tracks the resulting price movement. This data forms the foundation for the CoStar price index.

CoStar's value-weighted U.S. Composite Price Index, which reflects the larger asset sales common in core markets, increased 2% over the wider first quarter and 5.9% in the 12 months. The equal-weighted U.S. Composite Index, which reflects the more numerous, but lower-priced property sales, (typical of secondary and tertiary markets), increased 4.6% in the first quarter and 6.5% in the previous 12 months.

The first quarter data indicates sales volume are below previous monthly averages due to investors hitting the pause button in this uncertain environment as a result of COVID-19. While January trading activity appears largely stable, the 1,993 repeat-sale trades recorded demonstrate a 17% decrease in overall price from the same period in 2019. Similarly, repeat-sale transaction volume also began to drop from recent historical averages.

The eventual impact of the pandemic and economic fallout on commercial real estate market fundamentals and pricing is currently unclear. While lockdowns and social distancing measures became the norm late into the first quarter, the full impact of the pandemic on property pricing has yet to unfold. The major property type indexes posted average price growth of 1.7% in the first quarter, and around 5% for the to date second quarter.

The U.S. is ramping up testing to understand the full extent of the outbreak. Along with testing, the U.S. has attempted to isolate individuals with mild and moderate cases of COVID-19 and provide treatment to those with severe symptoms. Contact tracing can help authorities identify future cases where individuals have had contact with someone with a confirmed positive diagnosis. The U.S. is increasing production of health equipment (including masks, faceguards and ventilators) while expanding hospital and ICU capacity. Some are expediting drug trials and looking for existing remedies that could prove effective in lessening the severity of COVID-19; meanwhile, the research, development and testing of vaccine candidates is on a fast tract.

In U.S. real estate markets, several decisions are made at the state and local level. At least 34 states have temporarily prohibited evictions and the federal government has issued a 120-day moratorium on evictions from federally subsidized housing or from a property with a federally backed mortgage loan. Major mortgage lenders including Citigroup and JPMorgan Chase have suspended mortgage payments. Some U.S. states have halted construction on all projects unless considered essential (i.e. medical facilities).

Over the past several years, real estate investments have generated steady cash flow and returns significantly above traditional sources of yield—such as corporate debt—with only slightly more risk; however, as a result of the COVID-19 outbreak, this reality has changed and real estate players have been hit hard across the value chain. Service providers are struggling to mitigate health risks for their employees and customers. Many developers cannot obtain permits and are facing construction delays, stoppages, and potentially shrinking rates of return. Meanwhile, many asset owners and operators face drastically reduced operating income, leaving many feeling uneasy in regard to the number of tenants that will struggle to make lease payments. “Concession” and “abatement” are the words of the day, and players are working quickly to determine to whom they apply and how much.

Real estate assets are now performing in different ways during the COVID-19 outbreak. The market has pivoted mostly on the inherent degree of physical proximity among an asset class’ users—even more so than on its lease length. Assets with greater human density seem to have been hit the hardest: healthcare facilities, regional malls, lodging, and student housing have sold off considerably. By contrast, self-storage facilities, industrial facilities, and data centers have faced less-significant declines. The unlevered enterprise value of real estate assets fell 25% or more in most sectors, and an extreme 37% decline for lodging. It’s no surprise that—when shoppers avoid crowds, universities send students home, and retailers, restaurants, and hotels close their doors—owning and operating those properties is a less valuable proposition. As such, liquidity and balance-sheet resilience have become paramount.

While the long-term consequences are difficult to predict, the immediate market consequences of COVID-19 have been made clear—the public market sell-off in certain real estate types has been nothing short of dramatic. All companies, both public and private, are working diligently to navigate the immediate crisis with respect to staff, tenants, and end users of space, while also facing tough business trade-offs. Industry leaders are seeking the ideal balance between capital preservation and further strengthening their competitive differentiation.

Strategic review processes aim to understand how real estate usage will evolve moving forward; however, rather than relying on traditional economic or customer-survey-driven approaches, real estate leaders are looking to psychologists, sociologists, futurists and technologists for answers. Will employees demand more isolated workspaces? Will people avoid living in condominiums for fear of using public facilities? While uncertainty currently reigns, by employing a range of creative personnel and using new methodologies—such as deep design interviews—business leaders may find new and more predictive insights.

Unique to real estate, particularly healthcare real estate, is an elongated deal horizon. Most major healthcare real estate developments are years in the making. The marketing and absorption of a completed real estate project takes years before reaching stabilization; for example, a typical MOB real estate deal can extend 1 year + before consummation.

The Dodge Data & Analytics, a construction data company, is projecting healthcare building starts will rise 6% for 2020, achieving $29.7 billion in new projects nationwide. Building starts are expected to rise 13% between 2020 and 2021 for a total of $33.6 billion in new projects, the highest growth for new healthcare building starts since 2016.

The real estate repercussions resulting from the COVID-19 pandemic are immediate, and while closely monitored, will most likely not have a significant impact on healthcare real estate into the near-term and long-term.