

# REALFACTS

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Commercial Edition



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*As a Certified Commercial Advisor, I belong to a group of real estate professionals who not only list, lease and sell real estate, but also advise their clients on how to invest in real estate using discretionary income, self-directed retirement accounts and 1031 Tax-deferred exchanges. Contact me if you have an interest in investing in real estate.*

## What Shape Will the Commercial Real Estate Market Be In After COVID-19?

By Ken Holman

COVID-19 blindsided the commercial real estate industry. Unlike previous pandemics such as SARS (Severe Acute Respiratory Syndrome) and MERS (Middle East Respiratory Syndrome), this novel virus shut down the United States' economy and brought most of the world to its knees.

What impact has this had on the commercial real estate industry and what impact will it have going forward? Here are the following impacts the commercial real estate industry will face. First, certain sectors of the economy have been affected so dramatically that the market will be changed for years. These sectors include restaurants, department stores, movie theaters, convention centers, hotels and other businesses operating in the entertainment sector. It may take years for these businesses to regain their footing.

Additionally, the demand for office space may be altered for years to come. Over the past several years, there has been a concerted effort to pack more people into a smaller space. Now, with social distancing guidelines and work-from-home policies, office buildings have become cavernous. Today, they resemble a morgue rather than a vibrant work environment. Expect companies to rethink their workspace.

Second, with revenues down significantly, both landlords and tenants are rethinking their lease options. Some tenants have stopped paying rent altogether and are relying on clauses in their contracts to abate rent. Such contract clauses such as Force Majeure, Material Adverse Change (MAC), and Frustration of Purpose provisions in leases are being used by tenants to stop paying rent. Even Purchase & Sale Agreements (PSAs) are being renegotiated between buyers and sellers.

Third, some businesses are flourishing due to increased demand for their products during times of crisis. Amazon, for instance, is doing a booming business. The distribution sector for industrial real estate seems to be thriving. And with America discovering

that 95% of its medicines are produced in China and other foreign markets, it appears there will be forthcoming incentives to bring medical manufacturing back home. Further, interest rates have been dropping which gives property owners a chance to refinance at lower rates.



What will the future look like for the commercial real estate industry? As we move through the five stages of fear this pandemic has caused, i.e., panic, avoidance, struggle, coping and actualization, there will be both losers and winners in commercial real estate. The entertainment sector will eventually regain its footing because consumers are tired of staying at home and cooking their own meals. The office sector will adjust to changes in the workplace, which will create opportunities for investors. The industrial and medical sectors will flourish.

**“Real estate investors and practitioners should look for opportunities to enhance their portfolios”**

In short, this is a time of uncertainty that will take time to sort out. Real estate investors and practitioners should look for opportunities to enhance their portfolios by picking up commercial properties at below market prices. Eventually, the commercial real estate market will adjust to the new normal.

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## What are the Safest Real Estate Investments?

By Ken Holman

In the stock market, in times of volatility there is always a flight to safety. Generally, when there's uncertainty in the market, investors move to fixed-income securities such as bonds and government debt instruments. Unfortunately, these fixed-income investments pay less than 2% in interest per year.

Are there real estate investments that are almost as safe as these fixed-income securities? In real estate, risk is measured by the capitalization rate investors will pay for the asset. The capitalization rate or "cap rate" is determined by dividing the Net Operating Income (revenue less operating expenses) by the Sale Price. Generally, the lower the cap rate the safer the real estate investment.

The lowest cap rates in the market are paid on properties leased to National Credit Tenants. A credit tenant is given its investment grade rating based on its size and financial strength.

### "National Credit Tenants Provide the Safest Real Estate Investments"

Such companies as AT&T, AutoZone Inc., CVS Health, Dollar General, Dollar Tree, Home Depot, Kohl's Corp., Kroger Co., Lowe's Cos., Nike, Nordstrom, O'Reilly Automotive, Target Corp., Walmart, Walgreens Boots Alliance, are all listed on the S&P 500 and lease commercial space from real estate developers. The lease rates these companies pay

tend to be low but the likelihood of the rent being paid each month is very high. You can expect the cap rates for these companies to run between 4% and 6%.



When you invest in a project leased by one of these tenants you can expect a lower overall return but a high degree of safety. These returns, however, are significantly higher than what you can expect to achieve by investing in fixed-income securities.

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## 5 REASONS TO HIRE AN EXPERT REAL ESTATE ADVISOR

- 1 KNOWLEDGE.** An expert advisor has specific knowledge of the market to help you find the right opportunity. They know a good deal from a bad one.
- 2 CONTACTS.** An expert advisor has developed the contacts and relationships to assist you through the process. They are movers and shakers.
- 3 SPECIALIZATION.** An expert advisor specializes in property types and markets. They understand the nuances of the market.
- 4 ACCESS.** An expert advisor has access to listing and selling platforms. They understand how to advertise.
- 5 TIME & MONEY.** An expert advisor can save you time and money. They compile information, lay the groundwork, and minimize the hassle.



**CONTACT ME TODAY!**

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