Institutional Market Monitor

May 20th, 2020

You must SEE the market to BEAT the market

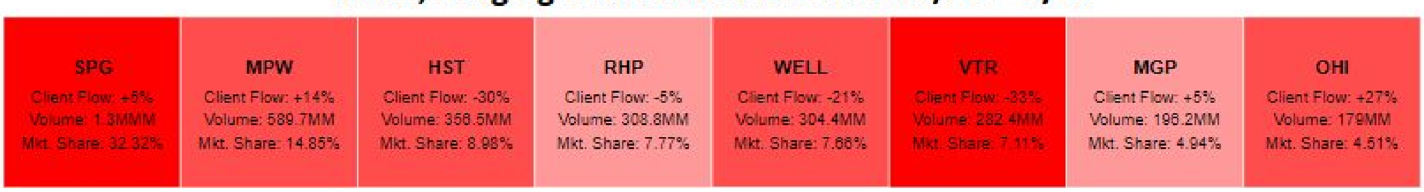
The Real Estate Investment Trust (REIT) market has been one of the hardest-hit sectors of the corporate bond market since the outbreak of COVID-19, with the gains of 2019 already erased through the first quarter of 2020. While the news is not good, within the REIT market there are multiple sub-sectors (retail, residential, office, etc.) that will behave differently according to market conditions. "REITs have been negatively impacted by COVID-19, although it meaningfully varies by property type," said Rob Nuccio, Research Analyst at Income Research + Management.

Using our BondTiQ visual application, we can compare the sell-off and recovery of different corporate bond REIT sub-sectors over the past three months.

Retail, Lodging and Healthcare REITs Taking a Hit

Retail and lodging sectors are the obvious areas of concern in the post-COVID-19 lockdown. Bonds backed by shopping malls, outlet centers, grocery stores, and other retail establishments have widened out over 400% from their 2020 tights. "Mall landlords have faced the greatest impact with many malls shut down since late March and only beginning to reopen," said Nuccio. "In response, retail REITs have offered some tenants rent deferrals to be repaid later in the year, but will have ongoing issues with collecting rent from all tenants in addition to vacancies from retailer bankruptcies." Across retail, lodging and healthcare corporate bond REITs, Simon Property Group Inc. (SPG), was over 32% of trading volume in the first month of the crisis:

Retail, Lodging and Healthcare REITs: 2/24 – 3/24



Host Hotels & Resorts Inc (HST) and Ryman Hospitality Properties (RHP) were the most active lodging names during this time period and saw meaningful client selling activity (HST client flow had -30% sales imbalance).

Office, Residential and Mortgage REITs Begin to Recover

The office, residential and mortgage sub-sectors of corporate bond REITs were not as negatively impacted as the retail sector. Just two residential issuers AvalonBay (AVB) and Essex Property Trust (ESS) comprised over 33% of the trading volume for this area of the REIT market during the first month of the crisis and had positive client flows:

Office, Residential and Mortgage REITs: 2/24 – 3/24

AVB	BXP	ESS	ARE	STWD	BXMT	EQR	VER
Client Flow: +8%	Client Flow: -23%	Client Flow: +3%	Client Flow: -6%	Client Flow: +13%	Client Flow: +4%	Client Flow: +32%	Client Flow: -21%
Volume: 525.1MM	Volume: 367.5MM	Volume: 348MM	Volume: 299.5MM	Volume: 288.9MM	Volume: 270MM	Volume: 240MM	Volume: 190.1MM
Mkt. Share: 19.85%	Mkt. Share: 13.89%	Mkt. Share: 13.16%	Mkt. Share: 11.32%	Mkt. Share: 10.92%	Mkt. Share: 10.21%	Mkt. Share: 9.07%	Mkt. Share: 7.19%

In the commercial (office) area of the REIT market, Boston Properties Inc (BXP) and Alexandria Real Estate (ARE) led the way on volume while experiencing negative client flows. "Multi-family owners have fared particularly well, experiencing only a modest decline in April rent collection. Landlords have halted evictions and are offering tenants directly impacted by COVID-19 modified payment plans," said Nuccio. This may explain the difference in client flows between residential (positive flows) and commercial (negative flows) REIT issuers.

What does REIT recovery look like?

The second post-COVID-19 month (3/25 - 4/24) REIT sub-sectors had highly differentiated recoveries:

Retail, Lodging and Healthcare REITs: 3/25 – 4/24

SPG	VTR	NNN	MPW	RHP	O	HST	WELL
Client Flow: -5%	Client Flow: -12%	Client Flow: +5%	Client Flow: -13%	Client Flow: -1%	Client Flow: +28%	Client Flow: +23%	Client Flow: -10%
Volume: 1.8MMM	Volume: 398.3MM	Volume: 394.8MM	Volume: 392.2MM	Volume: 255.4MM	Volume: 224.5MM	Volume: 216.3MM	Volume: 183.5MM
Mkt. Share: 41.79%	Mkt. Share: 9.00%	Mkt. Share: 8.93%	Mkt. Share: 8.87%	Mkt. Share: 5.77%	Mkt. Share: 5.08%	Mkt. Share: 4.89%	Mkt. Share: 4.15%

Office, Residential and Mortgage REITs: 3/25 – 4/24

BXMT	BXP	AVB	STWD	EQR	CPT	ARE	VER
Client Flow: +4%	Client Flow: +15%	Client Flow: +1%	Client Flow: +1%	Client Flow: +21%	Client Flow: +25%	Client Flow: +21%	Client Flow: +19%
Volume: 521.9MM	Volume: 380.5MM	Volume: 320.9MM	Volume: 294.2MM	Volume: 267.8MM	Volume: 262.8MM	Volume: 251.1MM	Volume: 166.8MM
Mkt. Share: 19.70%	Mkt. Share: 14.36%	Mkt. Share: 12.12%	Mkt. Share: 11.11%	Mkt. Share: 10.11%	Mkt. Share: 9.92%	Mkt. Share: 9.48%	Mkt. Share: 6.30%

SPG increased its overall dominance in the retail, lodging, and healthcare sectors (42% market share), but was net negative for client flow. Meanwhile, the top eight office, residential, and mortgage names by volume saw net positive client flows. Especially in EQR (+21%), CPT (+25%), and ARE (+21%).

A Closer Look - REITs Going Forward

It will be very interesting to see how REIT sub-sectors react to the ongoing crisis because there are several key questions that remain unanswered. Will rents be frozen or subsidized? Will mortgage payments be suspended? How long will companies make a permanent transition to remote working structures? When will stores be able to open again?

Using BondTiQ, you can easily observe the past and present trends of REITs, and watch how, or if, each sub-sector will eventually recover from this pandemic.

If you are interested in a free trial of BondTiQ, reach out to us at info@bondcliq.com.

Income Research + Management is not affiliated with or a client of BondCliQ.