WHY SOME ASSET VALUES WERE NOT IMPACTED

The nexus of the NCREIF Valuation Committee COVID-19 Bulletin was to document a special meeting of the Valuation Committee on March 19, 2020. The primary focus of that meeting and the corresponding bulletin was to identify and summarize considerations that valuers and their clients should consider when assessing the impact of COVID-19 on the March 31, 2020 property values reported by NCREIF’s data contributing members. While the Valuation Committee meeting and bulletin may have implied some assets (property types) that might not be impacted, greater emphasis was placed on which assets may have been impacted and the areas of emphasis within the cash flow assumptions. This resulted in frequent subsequent questions and discussion amongst the NCREIF valuation community regarding considerations that contributed to the decisions regarding asset valuations that were perceived not to have been impacted. The following bullets reiterate and expand upon the considerations cited in the bulletin, based upon the subsequent discussions.

- The bulletin listed asset types that ODCE funds would be most likely exposed to potential valuation risk due to the COVID-19 turmoil. Other asset types: stabilized industrial, stabilized apartment, stabilized office, and stabilized grocery anchored retail, appeared to be less exposed for the specific reporting period under consideration (March 31, 2020).
- As indicated in the bulletin, prior to this event, many real estate markets had sound underlying real estate supply/demand fundamentals. Given the focus around a March 31, 2020 reporting date, markets and asset classes exhibiting these sound fundamentals and stability are potentially less exposed to valuation impact due to the COVID-19 turmoil.
- While near term income may be disrupted, its materiality differs for various asset classes. In addition, it is unclear how landlords will negotiate rent relief or provide rent concessions. Assets with less exposure to near term income disruption may potentially be less impacted.
- The federal government has approved a $2+ trillion stimulus package and state governments are implementing and discussing packages that could mitigate damage for institutional real estate tenants and landlords, and the implementation and corresponding impact on institutional real estate are still unknown.
- There was discussion that many adjustments estimated for March 31, 2020 valuation conclusions would likely focus on the impact to near term income (i.e. lease up of vacancy, credit loss, rent relief, etc.).
- Given the duration of the valuation process, the timing at which values may have been finalized, and the timing at which the turmoil due to COVID-19 emerged, valuation professionals had to consider what valuation changes they could reasonably support in the wake of limited information, and giving consideration to the intended use and intended users of the appraisal.