



Playing the blame game won't get us anywhere.

By Mario Giannini, CEO | 21 October 2020

Key Takeaways

- Most of Europe is now struggling with a second wave, with case levels in many countries far higher than the first wave. However, death rates remain very low and the severity of this second wave isn't remotely comparable. (p. 2)
- A prediction for the U.S. until a vaccine is deployed: Oscillating waves and troughs with local restrictions that are quickly removed, and generally indifferent population response to the virus. (p. 3)
- With only a few weeks to go before the U.S. elections, I'm moving the odds of a Biden victory to 95%. This could be the most one-sided Electoral College victory since Ronald Reagan won 49 states in 1984. (p. 6)
- In the credit markets, the song remains the same: Go big or stay home. (p. 7)
- The stress imposed on state and municipal budgets by COVID-19 will certainly increase the need for private capital investment and PPPs. But "need" has never been the issue here – it's the alignment piece of these deals that inevitably makes them fall apart. (p. 7)

COVID-19

The world has essentially broken into three COVID camps.

Asia

Most Asian countries maintain successful COVID-19 elimination and suppression strategies. China, Australia and New Zealand have essentially eliminated the virus from their borders. Other countries like South Korea, Japan, Singapore, etc. have not encountered the second wave of the virus that other parts of the world are battling. It is striking that only two Asian countries – India and the Philippines – are among the 20 countries with the most COVID cases globally. Remember a few months ago everyone was discussing Singapore's "failed COVID response?" They reported 10 cases one day last week. South Korea, which a few weeks ago was saying it was very worried that another surge would overwhelm the country, has reduced case levels effectively. The success is predicated on a combination of things:

- Clear leadership direction that controls the virus is important, with mobilization of resources.
- A population willing to adjust behavior to combat spread.
- Generally targeted measures that focus on regions and/or specific activities that give rise to outbreaks, whether it be a major area, such as Victoria in Australia that is locked down, or bars and religious gatherings in South Korea.
- Effective testing and tracing.



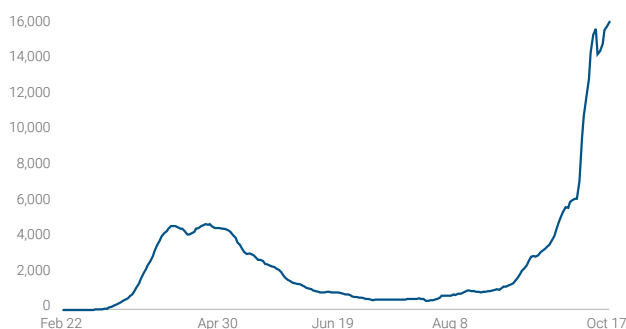
One example of what this means in terms of resumption of a more normal environment is that Hong Kong and Singapore plan to open a “travel bubble,” allowing free travel between the two with no quarantine or restrictions. That seems almost unthinkable in other parts of the world.

Europe

Most of Europe is now struggling with a second wave. Case levels in many countries are far higher than what they experienced in the first wave. However, while hospitalization numbers are gradually increasing in some countries, death rates remain very low and the severity of this second wave isn't remotely comparable. As I've discussed in prior updates, it's unclear if this is because there is more testing and more cases found, the infected population is younger, or we have become better at treatment protocols. The difference is important. If you listen to the news, you would believe we are about to experience another catastrophic Wuhan, Milan or NYC episode. We're not. The fear is that the winter season in these areas will cause the virus to explode. Perhaps. We have been very poor at predicting COVID-19's behavior. Most European countries are introducing more targeted restrictions in the hope of emulating what many Asian countries have done. It remains to be seen if European populations will be as willing to observe those restrictions as we see in Asia or if European governments will be as clear and forceful as many Asian governments.

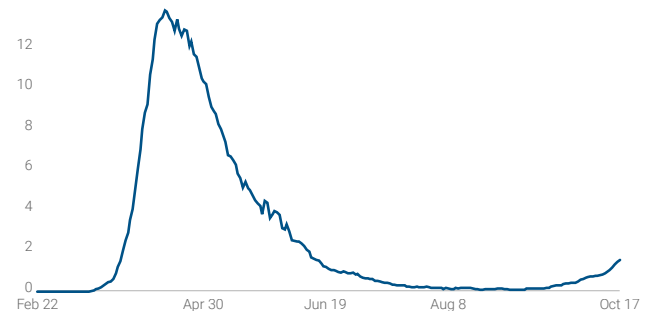
What's my guess? I believe cases will remain controlled in Europe. Why do I say that? I will offer two countries for consideration. The first is the UK, where we are now hearing the virus is out of control and deaths will soon spike and all sorts of terrible things will happen. (I could just as easily substitute France, Germany, Czechia, etc., as we hear the same things there.) Here is the seven-day rolling average of cases and deaths in the UK.

Daily new confirmed COVID-19 cases (UK)



Shown is the rolling 7-day average. The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing. Source: European CDC – Situation Update Worldwide – Last updated 17 October, 2020.

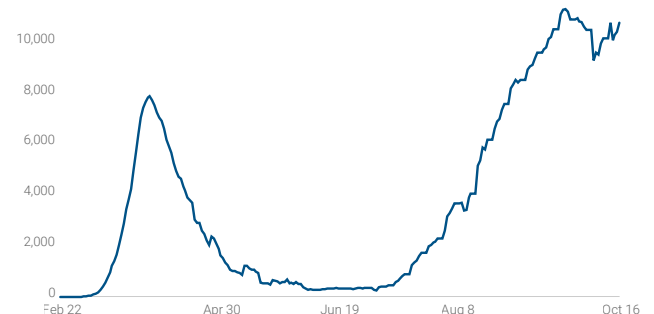
Daily new confirmed COVID-19 deaths per million people (UK)



Shown is the rolling 7-day average. Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19. Source: European CDC – Situation Update Worldwide – Last updated 17 October, 2020.

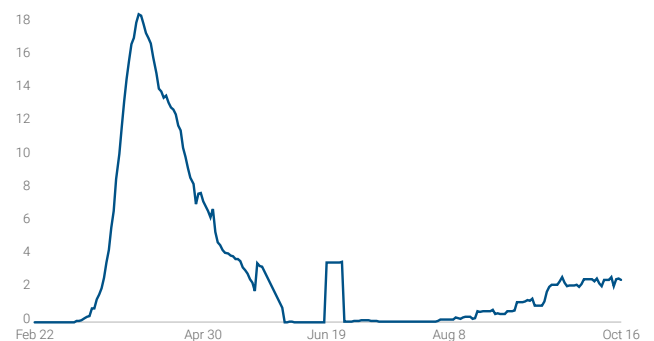
You get vertigo looking at the case levels. Deaths are not increasing at those rates and that is a hopeful sign. The UK, like most other countries, is introducing more targeted measures to bring the cases down. The reason I believe cases will be stabilized is by looking at the seven-day rolling average of cases and deaths in Spain.

Daily new confirmed COVID-19 cases (Spain)



Shown is the rolling 7-day average. The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing. Source: European CDC – Situation Update Worldwide – Last updated 17 October, 2020.

Daily new confirmed COVID-19 deaths per million people (Spain)



Shown is the rolling 7-day average. Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19. Source: European CDC – Situation Update Worldwide – Last updated 17 October, 2020.



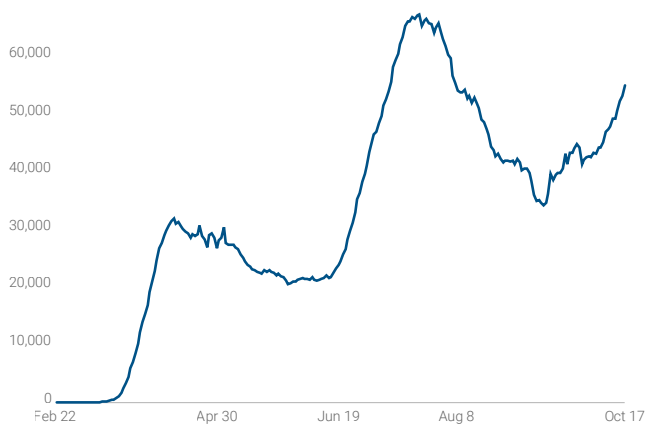
Recall that just a few weeks ago, Spain was the example of the country that was going to explode in a second wave worse than the first. Spain has been a few weeks ahead of most of Europe in terms of cases spiking and introducing restrictions. Cases have stopped climbing and deaths have stopped increasing. I believe Europe will slowly reduce the number of cases with this combination of leadership and targeted restrictions. I doubt they will reach the low levels we see in Asian countries, but morbidity and mortality will be far less than feared.

ROW

ROW, in this context, includes countries such as the U.S., Brazil, Mexico, India or Pakistan, where the virus is essentially spreading with sporadic, ineffective or half-hearted measures taken to control it. The best you can say for most of these countries is that the situation is not getting worse. Interestingly, countries like Mexico and Brazil, while having done little to combat the virus, are seeing cases slowly decline. Why? No one can say, other than to worry that they will rise again. The situation is unlikely to change significantly in any of these countries until a vaccine is developed.

What about the U.S. in particular? Here's the seven-day rolling average of cases and deaths.

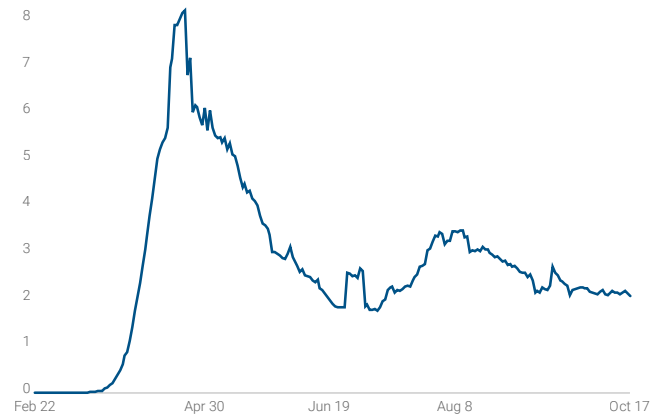
Daily new confirmed COVID-19 cases (U.S.)



Shown is the rolling 7-day average. The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing. Source: European CDC – Situation Update Worldwide – Last updated 17 October, 2020.

This will be the pattern in the U.S. until a vaccine is deployed: Oscillating waves and troughs with local restrictions that are quickly removed, and generally indifferent population response to the virus.

Daily new confirmed COVID-19 deaths per million people (U.S.)



Shown is the rolling 7-day average. Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19. Source: European CDC – Situation Update Worldwide – Last updated 17 October, 2020.

Unfortunately, it is likely that the U.S. is starting another wave of increasing cases. Unlike the prior waves tied to particular locations, this one is more widespread, including places like New York and New Jersey that had reduced the virus level substantially. This will be the pattern in the U.S. until a vaccine is deployed: Oscillating waves and troughs with local restrictions that are quickly removed, and generally indifferent population response to the virus. The reassuring news is that deaths, while stubbornly high, are not oscillating as dramatically. Here are three vignettes that say a great deal about why U.S. leadership has failed on COVID-19 and how that failure has caused the U.S. to be viewed in other parts of the world.

- Senior U.S. administration officials have recently discussed the merits of pursuing “herd immunity.” Whether this was idle speculation or a real policy initiative is unclear. We can debate the concept in a theoretical sense, but at this point, there is no scientific evidence that this strategy will result in anything but catastrophic morbidity and mortality numbers. That no one in the U.S. government publicly stated that this is not the U.S.’s strategy is telling.
- *The New York Times* published a story regarding President Trump’s potential message to the country after his COVID-19 infection. “In several phone calls last weekend from the presidential suite at Walter Reed National Military Medical Center, Mr. Trump shared an idea he was considering: When he left the hospital, he wanted to appear frail at first when people saw him, according to people with knowledge of the conversations. But underneath his button-



down dress shirt, he would wear a Superman t-shirt, which he would reveal as a symbol of strength when he ripped open the top layer. He ultimately did not go ahead with the stunt." Try to imagine the leader of any other country setting this tone for a pandemic. In the U.S., COVID-19 is a stage prop in a Saturday morning cartoon feature.

- New Zealand's Deputy Prime Minister, Winston Peters, was recently taking questions at an event. A man with a North American accent demanded proof that the virus existed. Mr. Peters answered, "We've got someone who obviously got an education in America. 220,000 people have died in the U.S., where there are eight million cases to date. We've got 79,000 cases just today, probably in India, and here is someone who gets up and says, 'The earth is flat.' Sorry, sunshine, wrong place." When was being educated in America synonymous with ignorance?

I don't normally link to articles but will make an exception here for [a great one](#). We have heard the reports of myocarditis (particularly in athletes) and other heart issues in COVID-19 patients. The reports have been apocalyptic, leaving you to feel that there is surely a generation of infected patients who, even after appearing fully recovered, will spend the rest of their lives with heart problems. We question whether anyone should play sports and condemn themselves to a life of heart failure. As the article explains far better than I ever can, that reading of the situation is incorrect.

Are any of those heart abnormalities ones that are problematic? Do they go away? Does the flu cause the same heart abnormalities, but we simply don't know it because we aren't checking for it? Are many of the people with these heart abnormalities people that had them anyway? This is not solely a myocarditis question. It is emblematic of the entire pandemic. We are making judgments and decisions based on unreliable, faulty and often misleading information and analysis. This is not a question of "doing the best with limited information." This is doing the worst because we're unwilling to get the best information and put it in any context.

This is not a question of "doing the best with limited information." This is doing the worst because we're unwilling to get the best information and put it in any context.

Back to School

While it shouldn't come as a shock to anyone, it is hard to find good information about infections in school settings, particularly in the U.S. It would be important to see, in real time, what works and what doesn't. Brown University (particularly one person there, Emily Oster, a professor of Economics) is compiling data, together with the School Superintendents Association. (You wonder why the government isn't gathering this data.) The information can be found [here](#). This is self-reported data and, while the data set is growing, is small compared to the overall U.S. student population.

The early indications are that schools aren't big spreader locations, certainly not the way you'd think based on what you hear and read. Data from the last two weeks of September among ~200,000 K-12 students attending in-person classes in 47 states shows an infection rate of 0.13% among students and 0.24% among staff. Ms. Oster commented, "I think that one thing is that the rates we're seeing is fairly low, lower than what we're seeing generally in the community. It looks like some people get COVID elsewhere and they're at school, so it's not that there's no COVID, but rates are low compared to what people would expect." The team is analyzing whether any particular mitigation measures are most effective, although that may be hard to determine.

Here is an unfortunate addendum. The project, and the data it is compiling, is caught in the same politicization you see with any attempt to discuss science and COVID-19. The right wing has trumpeted the numbers as proof that school re-openings are safe and must proceed. They make no mention of the small sample set or the fact that each of the schools has different mitigation measures or that they are in different communities with their own surrounding COVID reality. The left wing is writing articles attacking the publication of any data, making two arguments. First, the data is misleading and will lead to bad conclusions. Second, and more worrisome, is that a single infection or death is terrible and any data that puts an infection or death in a positive light should not be published. You pick your poison in this environment: Use data misleadingly, or don't allow data that runs counter to your morally unassailable conclusion. We wonder why, as a nation, the U.S. is unable to battle COVID-19.



Treatments and Vaccines

Treatments

Eli Lilly issued a press release on early data from clinical trials of its monoclonal antibody cocktail. The data showed an approximate 60% reduction in hospitalization rates and significant reduction in viral loads in patients. Unfortunately, Lilly said that the trial was paused as one patient became ill. However, Lilly said that it is seeking emergency use authorization from the FDA and is talking to regulators globally about using the drugs. The drugmaker also said that it will have one million doses of its single monoclonal antibody treatment available in the fourth quarter, but only 50,000 doses of this cocktail treatment. As I've mentioned in prior updates, most people familiar with this area believe monoclonal antibodies will be the best treatment options available and it is good news that Lilly's and Regeneron's drugs — which I mentioned in the last update and which is the treatment President Trump was given, are ready to be used to treat COVID-19. I expect a number of other clinical trial results to be published over the next 30 to 60 days.

Vaccines

- A. Johnson & Johnson announced that it had halted its clinical trials for its vaccine because of an unexplained illness in a participant. (It said it didn't know if the participant had received the drug or a placebo.) I will say again that this is normal in vaccine trials. Given the coverage, you would think the vaccine had failed. As a note on the AstraZeneca trial that had been paused for a similar reason, that trial has resumed in every country except the U.S., which continues to have a pause on the trial as it examines the evidence.
- B. The U.S. FDA announced guidelines that appear to ensure that no vaccine will be approved in the U.S. prior to late November. It is likely that this was done to eliminate the view that approvals were being rushed under pressure from the Trump Administration. Just as the FDA was making that announcement, the UK was announcing that it was going to have "rolling approvals" for vaccines, meaning they would be assessing data as it was coming in rather than waiting for everything to be done. Once again, the U.S. may find itself, as it has throughout this pandemic, as the country least prepared and least effective in dealing with COVID-19. There is a scenario where the U.S., the country with one of the highest COVID-19 infection rates globally, is one of the last to vaccinate its population.

C. On that political note, here are two interesting items:

- You have to love that U.S. House Speaker Pelosi took it upon herself to question the UK's approach to vaccine approval. Her fear was that the UK would approve the vaccine quickly and there would be pressure in the U.S. for approval, perhaps even prior to the election. It is not only Republicans in the U.S. who favor politics over science.
- Speaking of the UK, reports came out that the government has high hopes for the Oxford vaccine and plans are being made to have the population vaccinated by Easter, with additional healthcare workers being trained to administer the vaccine, plans for drive-through centers and using the military to assist. Again, contrast this with the U.S. where there is uncertainty over who administers any approved vaccine, who receives it and what process will be followed.

- D. Last week, polling in the U.S. showed, for the first time, less than 50% of those polled are willing to take a vaccine. It could be 25% as soon as we see vaccine trial participants contacting press outlets to report their symptoms. A recent report described five participants in two trials who reported "severe symptoms." Leave aside the fact that the participants didn't know if they got the placebo or the vaccine, what were the terrible symptoms? They reported chills, fevers and bad headaches. They also reported symptoms were gone in 24 hours. That won't matter; we will hear nothing but "severe symptoms." In no other country will clinical trials be played out and determined, in the public mind, through hype and pseudo-science in the news and on social media.

In no other country will clinical trials be played out and determined, in the public mind, through hype and pseudo-science in the news and on social media.

The Public Markets

- A. Interesting data for those who question what it means for an economy to eliminate COVID-19 and whether consumers will return to their pre-pandemic habits. Economic data out of China during the eight-day National Day and Mid-Autumn Festival holiday shows more than 630 million people travelled around the country during the Golden Week, which is nearly 80% of the numbers in the same period last year.



Tourist spending reached nearly 70% of last year's level. Movie ticket sales surpassed \$580M during the holiday – just 12% shy of last year's record high.

- B. Here's a look at rental price changes in major U.S. markets.

The 17 Most Expensive US Rental Markets

September 2020, median asking rents

One bedroom			From	Prior	Change from	Record
City	Price	yr ago	record	record		month
1 San Francisco, CA	\$2,830	-20.3%	\$3,720	-\$890	-23.9%	Jun-19
2 New York, NY	\$2,600	-12.5%	\$3,370	-\$770	-22.8%	Mar-16
3 Boston, MA	\$2,300	-8.4%	\$2,530	-\$230	-9.1%	Oct-19
4 San Jose, CA	\$2,230	-9.3%	\$2,550	-\$320	-12.5%	Jul-18
5 Oakland, CA	\$2,130	-14.1%	\$2,500	-\$370	-14.8%	Oct-19
6 Los Angeles, CA	\$2,020	-11.0%	\$2,430	-\$410	-16.9%	Oct-18
7 Washington, DC	\$1,990	-13.5%	\$2,340	-\$350	-15.0%	Dec-17
8 San Diego, CA	\$1,800	0.0%	\$1,950	-\$150	-7.7%	Dec-18
9 Miami, FL	\$1,750	1.7%	\$1,900	-\$150	-7.9%	Jun-16
10 Ft. Lauderdale	\$1,680	5.0%	\$1,700	-\$20	-1.2%	Jul-20
11 Seattle, WA	\$1,650	-12.7%	\$1,990	-\$340	-17.1%	May-18
12 Santa Ana, CA	\$1,650	1.9%	\$1,920	-\$270	-14.1%	Sep-18
13 Honolulu, HI	\$1,600	-3.0%	\$2,130	-\$530	-24.9%	Mar-15
14 Long Beach, CA	\$1,600	3.9%	\$1,610	-\$10	-0.6%	Jun-18
15 Chicago, IL	\$1,500	4.9%	\$2,050	-\$550	-26.8%	Oct-15
16 Philadelphia, PA	\$1,500	0.0%	\$1,550	-\$50	-3.2%	Sep-18
17 Denver	\$1,400	-11.4%	\$1,600	-\$200	-12.5%	Jun-19

Two bedroom			From	Prior	From	Record
City	Price	yr ago	record	record		month
1 San Francisco, CA	\$3,800	-20.0%	\$5,000	-\$1,200	-24.0%	Oct-15
2 New York, NY	\$2,990	-11.3%	\$3,980	-\$990	-24.9%	Mar-16
3 Los Angeles, CA	\$2,810	-11.1%	\$3,310	-\$500	-15.1%	Jun-18
4 Boston, MA	\$2,800	-3.4%	\$2,930	-\$130	-4.4%	Oct-19
5 San Jose, CA	\$2,770	-5.8%	\$3,080	-\$310	-10.1%	Apr-16
6 Washington, DC	\$2,740	-1.8%	\$3,290	-\$550	-16.7%	Jun-17
7 Oakland, CA	\$2,700	-10.0%	\$3,000	-\$300	-10.0%	Oct-19
8 San Diego, CA	\$2,360	-1.7%	\$2,520	-\$160	-6.3%	Oct-18
9 Miami, FL	\$2,350	3.1%	\$2,640	-\$290	-11.0%	Mar-16
10 Honolulu, HI	\$2,240	6.2%	\$2,950	-\$710	-24.1%	Jan-15
11 Ft Lauderdale	\$2,200	3.8%	\$2,230	-\$30	-1.3%	Jul-20
12 Seattle, WA	\$2,200	-7.9%	\$2,650	-\$450	-17.0%	Apr-16
13 Santa Ana, CA	\$2,180	2.3%	\$2,260	-\$80	-3.5%	Dec-18
14 Long Beach, CA	\$2,100	5.0%	\$2,200	-\$100	-4.5%	May-18
15 Denver	\$1,920	-4.0%	\$2,080	-\$160	-7.7%	Jun-18
16 Chicago, IL	\$1,800	2.9%	\$2,650	-\$850	-32.1%	Sep-15
17 Philadelphia, PA	\$1,760	3.5%	\$1,730	\$30	1.7%	Aug-18

Source: Zumper

WOLFSTREET.com

(Zumper collects this data from listings in the 100 largest markets, but only for apartment buildings, and does not include single-family houses and condos for rent. "Asking rent" is the advertised rent, a measure of the current market, like a price tag in a store. Asking rent does not measure what tenants are currently paying in rent, such as those under rent control, and does not include concessions.)

- C. President Trump tweeted that he was unilaterally terminating fiscal stimulus discussions. He apparently was surprised the stock market immediately fell and there was an avalanche of negative tweets about him, so he re-engaged in conversations for fiscal stimulus. It remains unlikely, this close to the election and with

that sort of random negotiating style, that a bill will be passed, but this is 2020 when anything can happen. (It should be noted that many White House economic advisors and some Republican Senators have stated that fiscal stimulus earlier in the year weakened the U.S. economy and they remain adamantly opposed to any additional stimulus.)

It remains unlikely, this close to the election and with that sort of random negotiating style, that a bill will be passed, but this is 2020 when anything can happen.

- D. My colleague Atul Varma had an interesting observation from J.P. Morgan's recent earnings release. JPM reported that loan balances with payment deferral were down 50% from June 30 to September 30. Also, the percentage of accounts that exited deferral, but are still current on payments, was 92%. Those numbers mean one of two things: Either the U.S. has not seen the full impact of federal unemployment benefits ending or the U.S. consumer is in a better place than it feels.

Political Prognostications

Presidential Election

"Tactics without strategy is the noise before defeat."

-Sun Tzu

With about two weeks to go before the U.S. elections, I'm moving the odds of a Biden victory to 95%. The polling numbers after the first debate moved in Biden's direction both nationally and in most swing states. Trump's two most visible acts since then, shedding his mask in front of the White House in a scene reminiscent of "Evita," while comparing COVID-19 to the flu, and then unilaterally terminating any stimulus discussions with a tweet, are likely to have alienated more voters. This could be the most one-sided Electoral College victory since Ronald Reagan won 49 states in 1984.

Some readers have told me my political odds are way off-base and either reveal my Democratic bias or ignore that polls had similar numbers prior to Trump's 2016 victory. I'm not ignoring the 2016 results, but suggest that what happened in 2016 is distorting our view of 2020 and that, this time, it's different.



- In 2016, Clinton was up by about 3% in the national polls. She actually won the popular vote by 2%, so the polls weren't that far off. Biden's lead, both nationally and in key states, is larger than Clinton's at this point. Trump has far more ground to gain in 2020 than he did in 2016 with little time left to do it and less money to spend.
- Equally important as the margin is the actual number. Clinton's leads in state polls in 2016 had numbers like 42-37 or 45-40. Undecided voters represented anywhere from 10% to 20% of the total and they swung heavily for Trump on Election Day. Biden's lead has numbers like 52-45. The undecided number is very small and, even if they move to Trump more heavily than Biden, there simply aren't enough to shift the numbers the way we saw in 2016.

Contested Election

I am reducing the odds of a contested election to 20%. The logic is the same as what I outlined in the last update. With a large Biden victory, there is very little to contest unless Biden chooses to challenge the results in the handful of states he doesn't win.

Investment Implications of Election

In a prior update, I provided an outline of what I expected the investment implications of a Democratic majority to be. Those haven't changed, except I will add two points of emphasis.

- A Democratic majority will pass a massive fiscal stimulus program. It could easily be \$4T. That's a lot of stimulus and will include large, short-term unemployment and cash payments to individuals. The stimulus will also provide a massive amount of money to state and local governments, money that will be used to provide additional local stimulus. It will also likely provide longer-term infrastructure spending with earmarks for initiatives the Democrats have long sought, such as renewable energy. It will prove again the adage that you never waste a good crisis and will buoy the U.S. economy for at least a year.
- The Democrat-controlled House unveiled [a very important blueprint for legislative change](#) last week that went largely unnoticed. It outlined revisions to U.S. antitrust laws needed to curb the power of major technology firms, including Facebook, Google, Amazon and Apple. It was very specific in the measures needed with each company. It is worth looking at to understand the pressures large technology firms will

face in a Democratic-controlled Congress.

The Private Markets

"Sing a song, play guitar, make it snappy"

*-Traffic, "Dear Mr. Fantasy"****

I'm going to catalogue some snappy snippets around the private markets.

1. In the credit markets, the song remains the same: Go big or stay home. Deal activity continues to accelerate at the largest end of the market; larger, more diverse global businesses are easily finance-able. Add to that credit needed for increasing numbers of PE-owned minnows trying to swallow whale-sized acquisitions that are two or three times larger. That's what happens when you combine lots of dry powder that hasn't done much for a few months and a view that larger businesses are better quality businesses. Let's also point out that turning dross into gold requires a great deal of add-backs, adjustments, and a fair bit of "trust me" bets based on scale of assets and certain targeted industry sectors. Sometimes the future's just so bright, you really do gotta wear shades.
2. Let's stay in the credit world where, last week, public high-yield new issuance increased to just under \$350B year-to-date, breaking the previous annual record of \$344B back in 2012. Lots of bond for loan take-outs.
3. We leave the credit world, virtually cross the Venetian bridge, and whisper a sigh of sadness for distressed debt investors. The doge tells of a credit portfolio where 95% of the credits are to companies where the combination of sponsors adding more equity and amend and extend agreements have the companies in fine shape. As my colleague Christian Kallen asked, "Did the distressed opportunity everyone is waiting for just get cancelled?"
4. There are more public-private partnership bids in the infrastructure space, but for every new one, an old one falls apart. See: Honolulu City Council's recent reversal of a ~\$150M commitment to partially fund the construction of a rapid transit project. Private market general partners are not participating in these deals because there are too many stakeholders to align and not enough certainty on the regulatory environment or revenue stream. The stress imposed on state and municipal budgets by COVID-19 will certainly increase the need for private capital investment and PPPs. But



"need" has never been the issue here – it's the alignment piece of these deals that inevitably makes them fall apart.

5. A report from our correspondent on the ground in RealEstateStan:

- ✓ Market participants are realizing warehouses may be the only core property type to post positive returns in 2020.
- ✓ Returns for office, retail and hotels, together with overall property market total return, look to be negative for the calendar year.
- ✓ Real estate investors are experiencing that K-shape recovery some are discussing: Resilient cash flows (and value) for cell/data, single-family rental and warehouse, while the hotel, office and retail sectors continue to struggle.
- ✓ CMBS market reports more than 1,500 loans delinquent; total is over \$30B, dominated by retail (43%) and hotel (37%).
- ✓ Sentiment feels "gloomy." Hope is that low interest rates and \$300B of reported dry powder should help mitigate the price decline. But, then, hope does spring eternal.

6. Recall the earlier chart that showed NYC rental prices down ~12%. Here's the report from an Upper West Side property:

- Leased status is 81%. Renewals through the end of the summer season were tough as new lease velocity was less than lease expirations. This manager believes the bottom has been reached. (Well, what manager doesn't in a falling market?)
- Good news—floating-rate interest on the property's debt keeps the overall October debt at an annual rate of 1.75%. That's low. Really low.
- -12% did not include rental concession. For existing vacant renovated apartments, this building is offering 2-3 months of concessions on leases from 12-24 months and has decreased pro-forma asking rents 10-15% on average to drive traffic. With that, in September, the building had four out of 18 leases renewed for a 22% renewal rate.

7. Well you take the high road and I'll take the low road... In Europe, the deal market was crazy busy from May through September. Now, it's tailing off as rising COVID cases reduce deal appetite. There is still activity in corporate divestments and public-to-private. In North America, it's the opposite. The summer was somewhat quiet, but now, it's crazy busy.

8. One place where the good times roll is growth equity, where pipelines remain exceptionally strong and where existing companies have rarely had better opportunities for liquidity, whether through IPO, a SPAC, other sponsors or strategic buyers. The real diligence question is dissecting how much of a COVID bump is sustainable from new long-term adoption versus short-term demand increases.

(**As a bonus track, listen to a live version of "Dear Mr. Fantasy" with Steve Winwood playing guitar. Wow.)

Conclusion

"Contrary to popular belief, the experience of terror does not make you braver. Perhaps though, it is easier to hide your fear when you're afraid all the time."

—David Benioff, "City of Thieves"

This one's brief. It seems that everywhere you turn, people are angry, people are screaming, people are filled with righteous indignation, with fury, with a need to find someone to blame, to find something wrong, something that doesn't work, something that someone needs to fix. We blame the media, we blame the President, we blame some part of the country, some part of the world, some group, some company. Someone. Anyone. What's that old expression? "Don't blame you, don't blame me, blame that person behind the tree." Perhaps it is the pandemic, perhaps it is the times, perhaps it is who we are. I don't know. What I do know is that it isn't very productive. It leads to bad decisions, to bad mental states, to greater uncertainty. It is also totally unnecessary.

Here's my advice for this update. Stop complaining, just for one hour, for one day. Stop finding someone or something to blame. Stop being angry, stop being self-righteous. Help someone that needs help. I'm guessing we'll feel better, even if only for a moment. It may even be for longer.