Vornado Realty Trust (VNO), one of New York's largest owners of office and retail assets, announced it has suspended its common dividend. (UBS)

Assessing the latest headlines in commercial real estate

28 April 2023, 1:57 pm CEST, written by UBS Editorial Team

Headwinds in the commercial real estate (CRE) market came front and center again yesterday.

Vornado Realty Trust (VNO), one of New York's largest owners of office and retail assets, announced it has suspended its common dividend (but not preferred dividends) until the end of the year. At that point, VNO will pay its dividend either in cash or a combination of cash and stock.

While VNO likely won't be the only office REIT to reduce its dividend, we don't believe this represents a broader read-through to the entire sector. The challenges in office, which accounts for only about 5% of the broader sector's market cap, are acute—but also asset-class specific. For most REITs, dividend coverage remains very healthy, and we believe a majority of the sector is still on track to raise dividends, at least in line with the growth in funds from operations (FFO).

There is no doubt that CRE faces real challenges from rising rates, tighter capital access, a slowing transaction market that makes price discovery more challenging, and a slowing economy. That said, outside of office, balances are generally healthy, liquidity is solid, access to capital remains, and dividend payout ratios are reasonable.

The bottom line: In the intermediate term, we are neutral on the REIT sector, which will likely remain volatile in the coming months—especially given uncertainty in regional banks and financing markets. But for investors with a time horizon of two years or more, we do believe a number of attractive opportunities are emerging, especially in sectors including industrial, residential rentals, self-storage, data centers, wireless towers, and grocery-anchored shopping centers.

Main contributors: Solita Marcelli, Jonathan Woloshin

Original blog - **Assessing the latest headlines in commercial real estate**, 27 April, 2023.

Important information

For UBS marketing purposes