Marcus & Millichap
Capital Corporation

Cap Alert

LATEST DEBT MARKET INFORMATION

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Assessing the Impact of Covid-19 on Our Interconnected Industry

As the Covid-19 crisis continues, concerns are growing that our industry is too interconnected to fail. Commercial real estate is a deeply intertwined ecosystem of tenants, borrowers, lenders, servicers and – especially since the crisis began -- government. As one domino tumbles, so go the others.

We saw, for example, massive failures to pay rent in April, from large corporations to millions of restaurants, retail stores and other small businesses that have lost significant revenue or been shut down altogether. Smaller entities may be able to cover rent in May if they were lucky enough to receive some of the $350 billion in Payroll Protection Plan funds. But those first-come-first-served program ran out of money in just two weeks, and news reports are revealing how inequitably the distribution process unfolded. More than $243 million of taxpayer-funded relief was funneled to large, publicly traded companies, several with market caps of more than $100 million, according to a Morgan Stanley report. On April 21, the Senate approved another $484 billion in stimulus, which includes $320 billion for small business. The legislation heads to the House later this week. Hopefully the process this time will prevent larger firms from gaming the system.

A vaccine and treatment for Covid-19 will eventually be found, and the economy will rebound. In the meantime, it's crucial to do everything possible to support our interconnected system.

Servicers represent the next domino threatening to fall, since the CARES Act allows multifamily owners with mortgages backed by Fannie Mae and Freddie Mac to receive forbearance–but doesn't provide a liquidity backstop for the servicers, who must advance the funds whether they collect them or not. Ginnie Mae recently announced a plan to provide liquidity to both single-family and multifamily servicers. But this "will not address servicing advances associated with loans backing Fannie Mae, Freddie Mac, or private-label securities, nor will it address advances of taxes and insurance on loans backing Ginnie Mae securities," according to a letter sent to regulators earlier this month by 15 industry trade associations. Few if any servicers have the kind of reserves needed to endure an extended shortfall in mortgage payments. Without relief, a whole pillar of the industry could fall.

Some observers warn about the huge cost of government support, and the prospect of long-term deficits. But consider the case of Fannie Mae and Freddie Mac, which received a $187 billion federal bailout in 2008. In August 2012, the Treasury Department began funneling all of the GSE profits into the general fund. Since that time, the bailout funds have been repaid with an additional $58 billion in profit, according to the private economic group Shadow Open Market Committee.

We don't know how long the pandemic will last. In the interim, there will be serious pain and unprecedented losses. An analysis of employment survey data by economists at Arizona State and Virginia Commonwealth University found 24 million jobs were lost between March 29 and April 4, and they estimate that the unemployment rate increased from 4.5 percent to 20.2 percent. At the same time, we know massive efforts are underway to find both a vaccine and treatment for Covid-19. These will eventually be found, and the economy will rebound. In the meantime, for the long-term health of the U.S. economy, it's crucial to do everything possible to support our interconnected system.

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RECENT TRANSACTIONS

MULTIFAMILY
San Diego, CA
$7,750,000
3.75% Fixed
10 yrs I.O.
10-yr term
Rate lock at application

NET LEASE
Frankfort, IN
$4,030,000
3.80% Fixed for 10 yrs
10-yr term/30-yr amort.
3, 2, 1, 0 Prepay

OFFICE
Plano, TX
$3,800,000
4.50% Fixed
5-yr term/25-yr amort.
Recourse with no
additional REO collateral