Marcus & Millichap Capital Corporation

Cap Alert

LATEST DEBT MARKET INFORMATION

March 27, 2020

Navigating the Covid-19 Storm

These are tumultuous and uncertain times. Few predicted a global pandemic caused by the Covid-19 virus would create such a massive economic storm. Many economists expect a sharp contraction in the global economy in the first half of the year followed by a likely rebound when restrictions are lifted. In the meantime, lenders and borrowers are facing the kinds of challenges we have not seen since 2008-2009.

The market is experiencing a significant disruption in supply and demand, volatile transaction volume, and dynamic changes in liquidity on a daily and sometimes hourly basis. Some lenders are facing difficult margin calls from financing counterparties. While capital remains in the market, we expect it to become increasingly constrained, particularly for asset classes that are under pressure, while spreads continue to widen. Lenders are triaging and prioritizing the strongest borrowers while also instituting floors.

Policymakers are intervening to provide the fiscal fuel to revive growth.

Deal closing times are widening by 30 to 45 days in many metros as property inspections are disrupted and county recorder offices remain closed. Many commercial real estate investors and lenders, even those outside of the hard-hit hospitality, retail and senior housing sectors, are wondering what will happen on April 1 when the rent comes due. Property owners may need to get creative and offer tenants some flexibility in exchange for lease modifications.

Policymakers are intervening to provide the fiscal fuel to revive growth, including a $2 trillion economic rescue package that supports workers with direct payments and expanded unemployment benefits, and small business with $350 billion in loans. The measure, which was near approval at this writing, would also include a $150 billion in investment in the health care system, and an additional $150 billion for state and local governments. Separately, the Federal Reserve announced measures to keep credit flowing by purchasing Treasury and commercial-backed mortgage securities (CMBS) issued by the GSEs. The Federal Housing Finance Agency suspended mortgage payments for landlords with Freddie Mac and Fannie Mae loans on the condition they don't evict tenants hurt by the coronavirus. The Federal Deposit Insurance Corp. and other regulators will allow banks to modify loans for borrowers hurt by the coronavirus without having to label the loan a "troubled debt restructuring."

The Covid-19 economic shock is touching all asset classes and all investors. Volatility and uncertainty are here to stay for at least the next quarter, so patience and caution are critical. Owners and investors may want to reach out to a trusted mortgage broker, who can provide strong guidance to navigate a quickly shifting capital landscape.

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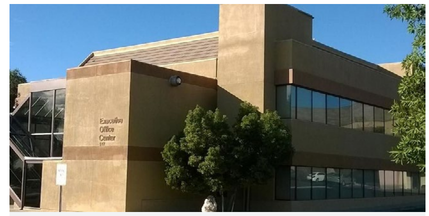
RECENT TRANSACTIONS

MULTIFAMILY
Waterloo, IA
$15,000,000
3.43% Fixed
4 yrs I.O.
15-yr term/30-yr amort.

RETAIL
Mahwah, NJ
$7,420,000
3.50% Fixed
10-yr term/30-yr amort.



OFFICE
Upland, CA
$1,980,000
4.505% Fixed
15-yr term/30-yr amort.