Marcus & Millichap Capital Corporation

Cap Alert

LATEST DEBT MARKET INFORMATION

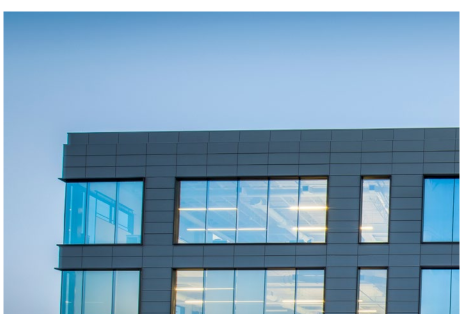
April 10, 2020

The Fed Announces New Ammunition to Battle the Covid-19 Crisis

On April 9, the Federal Reserve announced another round of initiatives to bolster the U.S. economy amid the Covid-19 crisis. The Fed is launching or expanding nine different lending programs that will provide $2.3 trillion in funding to:

- free up banks to lend more money to small businesses;
- extend emergency loans to mid-size businesses with fewer than 10,000 employees or $2.5 billion in revenue;
- backstop funding markets for large companies by investing in some riskier classes of corporate debt;
- allow the Term Asset-Backed Securities Loan Facility (TALF) to accept the highest-rated tranches of existing commercial mortgage-backed securities (CMBS) and newly issued collateralized loan obligations (CLOs);
- and purchase up to $500 billion in short-term debt directly from U.S. states, the District of Columbia, counties with at least two million residents, and cities with at least one million residents, helping them sustain services them through the crisis as their revenues decline.

The Fed's move come as another 6.6 million Americans submitted claims for unemployment this week, for a total of 17 million since the Covid-19 crisis began. In short, the Fed is getting creative in waging war on the virus and the threat it poses to U.S. economic health, and we're encouraged by what we see. The markets are as well, with stocks posting their best weekly gains since 1974.



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Meanwhile, businesses and individuals are beginning to apply for financial aid authorized by the Coronavirus Aid, Relief, and Economic Security Act (CARES), the $2 trillion economic stimulus plan approved in late March. On Tuesday, the administration said 3,000 lenders had processed 178,000 in Emergency Small Business Loans, for $50 billion, through the Small Business Administration's credit facility.

The Act's already had Payroll Protection Program (PPP), which offers forgivable loans to cover payroll costs for small businesses, should help to keep workers on payrolls, and support both the broader economy and real estate market. Meanwhile, expanded unemployment benefits will help renter households cover their personal expenses. The program is not without a few bumps, as the rush to apply, coupled with the inability to actually process the applications, has created a back log at many of the lenders we have spoken with.

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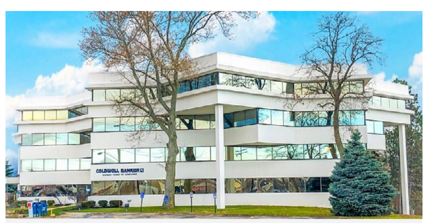
Credit supply to owners and investors is still contracting. We are seeing some lenders back away from the market for now, concerned about the impact of the economic shutdown and unemployment on tenants' ability to pay rent in the month of May and beyond. Other lenders continue to provide capital, but are seeking credit enhancements, including lower loan-to-value ratios and higher spreads. The commercial mortgage-backed securities market (CMBS) has shut down.

On April 8, The Federal Reserve, through Blackrock, purchased another $2 billion in Fannie Mae DUS bonds, of which $6.5 billion was offered. In addition, Fannie Mae announced more details related to its forbearance program. The requirement to halt evictions during the 12-month payback period has been removed. The new restriction is the longer of 120 days after the enactment of the CARES Act, a 90-day forbearance period, or any other longer period mandated by law. The requirement of an executed pre-negotiation letter has been removed as a condition of granting the forbearance, and the agreement no longer requires that tenants be placed on a formal repayment plan. Property management fees, the lesser of the current fee or 5 percent, are now considered an allowable expense, and all net operating income must be remitted to the lender by the 10th of the month.

Shelter-in-place orders across the U.S. are starting to have direct impacts on property expenses. The multifamily sector, particularly luxury properties, may see higher utility and cleaning expenses, with many employees working from home. Offices and retail, meanwhile, could see costs fall as properties remain closed. If rental income is impaired, owners across the board may consider property tax protests with regulatory bodies, to reflect the decline in cash flow and values. Please reach out to your Marcus and Millichap Capital Corporation professional to help sort through your financial strategy and options.Please reach out to your Marcus and Millichap Capital Corporation professional to help sort through your financial strategy and options.

RECENT TRANSACTIONS

MULTIFAMILY
Santa Clarita, CA
$12,300,000
3.55% Fixed for 5 yrs
3 yrs I.O.
30-yr term/30-yr amort.
68% LTV
Non-Recourse



OFFICE
Westlake, OH
$5,400,000
3.56% Fixed
15-yr term/15-yr amort.
No reserves
Including no cash management

RETAIL
Pompano Beach, FL
$2,000,000
2.93% Fixed for 10 yrs
10-yr term/25-yr amort.
65% LTV
Recourse

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