Marcus & Millichap
Capital Corporation

Cap Alert

LATEST DEBT MARKET INFORMATION

April 3, 2020

Understanding the Current Financing Landscape

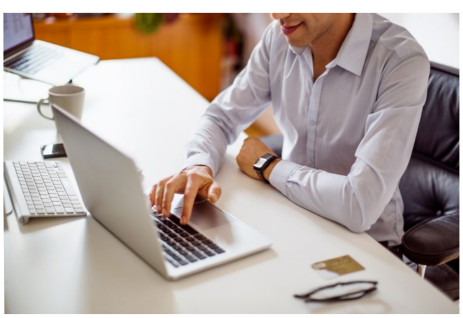
Without question, the Covid-19 pandemic has ushered in the most difficult economic period in recent history. In March, unemployment rose to 4.4% as non-farm payrolls declined 701,000, above expectations. The yield on the 10-Year Treasury now stands at 0.581 down from the close yesterday at 0.62. Meanwhile, China's official gauge of manufacturing activity provided a hopeful sign this week: Though business has not returned to pre-virus levels — especially with the rest of the world shut down — activity in March rebounded more than economists expected, as people returned to work following the containment of Covid-19.

While uncertainty is creating a number of challenges across the lending landscape, financing is available for certain assets and borrowers who meet specific terms and conditions. Some life companies are still actively quoting new transactions, managing deal flow by widening spreads and establishing floors, currently hovering around 3.5 percent, with a few lenders above this level. Debt funds also remain open for business, though some are incorporating a debt service reserve for up to 12 months as an additional holdback at funding. Lower-yielding debt funds have seen spreads move from the mid-200 bps to the mid-300 range over the 30-day LIBOR.

Fannie Mae spreads flattened earlier this week, falling significantly from late last week when Blackrock, on behalf of the Federal Reserve, began purchasing DUS bonds. Meanwhile, Fannie has instituted new credit guidelines that establish a reserve for debt service, taxes and insurance for six to 18 months, depending on the loan size and loan-to-value ratio. As of April 3, 2020, current Fannie Floors are 0.80 percent for a seven-year term; 0.70 for a five-year; 0.90 percent for a 10-year; and 1.30 percent for a 30-year.

Freddie Mac is starting to institute new credit policies that will require principle and interest reserves in addition to tax and insurance reserves. As of April 3, 2020 Freddie, is quoting the greater of the spot rate minus 15 bps or 75 basis points, as index volatility continues.

Some CMBS lenders are placing deals under application but are not finalizing pricing as both lenders and the market as a whole awaits more pricing discovery.



To address the inevitable collection challenges in the coming months, we recommend owners and investors partner with tenants.

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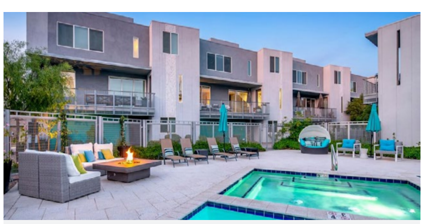
Owners and investors are facing inevitable collection challenges in the coming months as the virus impacts employment, and federal, state and local authorities issue moratoriums on evictions. On March 27 President Trump signed the Coronavirus Aid, Relief, and Economic Security Act (CARES), a $2 trillion economic stimulus plan, and aid is beginning to flow to individuals and businesses. The CARES Act allows borrowers with a federally backed mortgages to request forbearance from loan servicers and prohibits tenant eviction for non-payment related to Covid-19 for a period of time. To learn more, see sections 4022 through 4024 of the Act: *Files.TaxFoundation.org*. Both Fannie Mae & Freddie Mac are continuing to update guidance on a Forbearance Programs as COVID-19 continues to affect tenants' abilities to pay rent.

The CARE Act also establishes a $350 billion loan guarantee program for small businesses, including loans that are forgivable when used to keep workers on the payroll and cover rent and utilities, which will allow firms to ramp up quickly when the virus abates. The U.S. Chamber of Commerce has published a guide on the eligibility and the application process, which we recommend sharing with small business occupiers: *USChamber.com*. Owners may also consider negotiating longer terms or other lease amendments in exchange for a period of forbearance. As of this writing, we have been informed that there has been a substantial number of SBA applications already submitted which has created a backlog as many Lenders await more clarity from the SBA on process and protocols.

Meanwhile, individuals and families will begin to receive government payments, as well as expanded unemployment benefits. The National Multi Housing Council (NMHC) has published a document on these benefits, which owners can customize with their logos and local employment office information and distribute to tenants: *NMHC.org* Owners of multifamily properties may also want to review recommended NMHC's guidelines on working with renters through the Covid-19 crisis: *NMHC.org*.

Please reach out to your Marcus and Millichap Capital Corporation professional to help sort through your financial strategy and options.

RECENT TRANSACTIONS



MULTIFAMILY
Phoenix, AZ
12,600,000
4.10% Fixed
3 yrs I.O.
10-yr term/30-yr amort.

HOSPITALITY
Manitowoc, WI
$5,300,000
4.45% Fixed
1 yr I.O.
10-yr term/25-yr amort.

NET LEASE
Lowell, MA
$4,000,000
3.07% Fixed for 5 yrs
10-yr term/30-yr amort.