Marcus & Millichap
Capital Corporation

Cap Alert

LATEST DEBT MARKET INFORMATION

May 22, 2020

Getting to the Closing Table During COVID-19

As states across the U.S. begin to ease lockdowns, commercial real estate participants are trying to mitigate the impact of the coronavirus pandemic. In its Bi-Annual Financial Stability Report, the Federal Reserve this week warned that asset prices "remain vulnerable to significant declines should the pandemic worsen, the economic fallout prove more adverse, or financial system strains reemerge."

The Fed said price declines "could be especially pronounced in areas where valuations have remained high and where asset values are sensitive to the pace of economic activity," noting that CRE prices were high relative to fundamentals before COVID-19, and hospitality and retail have been especially hard-hit. The multifamily sector, meanwhile, has held up better than expected, with 87.7 percent of renters making a full or partial rent payment the week of May 13, according to the National Multi Housing Council's survey of owners/managers of 11.4 million apartments.

Although the uncertainty caused by COVID-19 has dampened economic momentum, there are still lenders that remain active in the capital markets. Local, regional and national banks, credit unions and life companies are funding deals in various asset classes, though the credit box is shrinking. They are working with stronger sponsors who have excellent credit, pulling back on leverage and requiring higher debt service coverages, which corresponds to higher debt yields. However, even borrowers who can meet those criteria face unique obstacles in getting to the closing table.

Process has become critical, and even the smallest missteps can derail a deal. Borrowers need to navigate a range of unexpected new hurdles, such as finding ways to safely and effectively manage the appraisal process or coordinate third-party inspections. Lenders are dealing with tremendous pressure on bandwidth and resources as they weigh exposure in their existing loan portfolios, manage workouts and administer the Paycheck Protection Program. As a result, it's crucial to package and present appropriate documentation such as rent rolls, expenses, profit and loss statements, tax returns and third-party reports in a comprehensive and compelling manner to minimize objections.

Local, regional and national banks as well as life companies are still funding deals in certain sectors, though the credit box is shrinking.

In addition, lenders want a much deeper dive into property income. They are examining trends in collections; seeking in-depth assessments of tenants' financial situations, including employment and credit histories; and asking about communication programs lenders have implemented to help tenants tap available support. There is intense focus on ensuring the durability of a property's income stream.

How can borrowers get a deal to the finish line amid the uncertainty of COVID-19? The reality is, not everyone can get a loan in this unprecedented environment. With the landscape shifting dramatically, borrowers need to work with a partner who can clear the market and serve as their advocate from application through closing.

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For example, since the pandemic began, MMCC has closed hundreds of loans with a large variety of active lenders across four major sectors, including apartments, triple-net retail, industrial and office. Our national platform of experienced originators and long-standing, trusted relationships with more than 350 different lenders gives us the opportunity to identify the right capital solution for borrowers on the right terms, and act as their liaison through the process. The firm is constantly improving our technology workflow, data capture and aggregation tools to track the market, as well as our unique approach to packaging transactions. Our culture of collaboration is designed to share information about the most creative strategies and customized structures to achieve the appropriate capital solution.

The ability to execute in this environment has become essential. Please reach out to one of our professionals for guidance in navigating the market.

RECENT TRANSACTIONS

MULTIFAMILY
Los Angeles, CA
$15,000,000
2.63% Fixed for 10 yrs
10 yrs I.O.
10-yr term/30-yr amort.
Closed at 72% physical occupancy

NET LEASE
Augusta, ME
$6,700,000
3.28% Fixed
10-yr term/30-yr amort.
Limited Recourse

OFFICE
Greenwood, IN
$4,925,000
2.92% Fixed
10-yr term/25-yr amort.
69% LTV
50% Recourse
No reserves, including no cash management