Marcus & Millichap
Capital Corporation

Cap Alert

LATEST DEBT MARKET INFORMATION

July 10, 2020

Keeping a Watchful Eye on the Capital Markets

Leadership guru Warren Bennis once said, “The manager has his eye on the bottom line; the leader has his eye on the horizon.” From our perspective, everyone should keep a close eye on the road immediately ahead. While we’ve seen incremental signs of economic improvement – for example, the unemployment rate fell to 11.1 percent in June – new perils are emerging. In this volatile environment, the fragility of the capital markets should never be taken for granted.

Of primary concern is the economic health of the U.S. consumer. Federal coronavirus relief benefits, which provided an extra $600 a week to unemployed workers, expire July 31. Those funds have helped households pay rent and buoyed the multifamily sector. More than 94 percent of households had paid rent as of June 27, according to the National Multifamily Housing Council survey of 11 million apartment units.

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In addition, COVID-19 has flared up in the south and west, requiring new lockdowns, which could produce a fresh spike in jobless claims among workers at restaurants, bars, gyms and other service positions. Meanwhile, school districts are starting to announce plans for fall, with indications that millions of children could be attending classes online from home several days a week, putting additional pressure on working parents. Households are already carrying a record $14.3 trillion in debt. It may be difficult for many families to withstand further income disruption without continued federal support.

On that front, the Trump administration has indicated it favors additional coronavirus relief, and Senate Democrats are proposing to put support on autopilot. A bill introduced July 1 would prolong the $600 a week federal benefit until a state’s average unemployment rate over three months is below 11 percent. The benefit would decline incrementally with the jobless rate. The bill also proposes extending the length of support from 39 weeks to 78 weeks if a state’s unemployment rate is above 5.5 percent. The Senate is expected to resume negotiations over aid extension the week of July 20, after its holiday recess.

Meanwhile, states are also experiencing the destructive impact of COVID-19. They are facing projected revenue shortfalls of up to $200 billion in fiscal year 2020, which ended June 30, and fiscal year 2021, which ends July 1 of next year, according to the Tax Policy Center. Some 1.5 million public workers were laid off between March and June, according to the Bureau of Labor Statistics. Balancing state budgets will likely require higher taxes and reductions in basic services, including education, health care and public safety.

Banks are under pressure as well. The Federal Reserve’s latest stress tests showed that in a worst-case scenario, the 33 largest U.S. banks could lose nearly $48 billion on commercial real estate loans over the next two years. (It’s worth noting that scenario is truly “worst case”; it would involve a severe global recession, a contraction of 10 percent in GDP, a significant drop in the stock market and an unemployment rate of 10 percent well into 2021.)

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In the capital markets, conditions are slightly more favorable than 30 days ago, providing a potential window of opportunity for borrowers. We are seeing a few national banks reenter the market. Regional and local banks, credit unions and life companies are relaxing their most restrictive loan provisions, such as capital reserve requirements. Fannie Mae and Freddie Mac remain aggressive, providing much-needed liquidity. Given the resurgence of coronavirus lockdowns and their potential economic impact, lenders continue to scrutinize deals for tenant strength, quality of collections and borrower creditworthiness, and are favoring industrial and multifamily assets.

The environment remains highly dynamic. Please reach out to an MMCC Capital Advisor for up-to-the-minute guidance, access to an unparalleled network of lenders, and the widest range of capital solutions for your commercial real estate needs.

RECENT TRANSACTIONS

MULTIFAMILY

Los Angeles, CA
$7,980,000
75% LTC
4.25% Adjustable
18 months I.O.
3-yr term/30-yr amort.
Recourse

MEDICAL OFFICE

Lubbock, TX
$5,845,000
70% LTV
4.15% Fixed for 5 yrs
7-yr term/30-yr amort.
Non-Recourse

NET LEASE

Salisbury, NC
$2,877,000
2.74% Fixed
10-yr term/20-yr amort.

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