Market Conditions

U.S. equity indexes are up today (April 2nd) even though investors react to worsening coronavirus figures and assess the impact to corporate profits and dividends in the coming quarters. China manufacturing gauge improves while the entire Euro bloc showed contraction in factory data today. President Trump spoke frankly last night to Americans warning that the next two to three weeks will be painful with predictions of 100,000 to 240,000 deaths. Manufacturing indexes across Europe contracted as the virus has idled factories and consumers are stuck at home. Thirty U.S. states and DC have issued stay-at-home orders. Saudi Arabia boosts crude output to 12MM barrels a day; however, Russia is not turning on the taps after agreeing with the U.S. that the oil glut hurts everyone.

DUS MBS levels have firmed up after the first injection of stimulus into the ACMBS market last Friday. $1.08 billion of securities were purchased by the Fed with the help of BlackRock as their advisor. Spreads have tightened by as much as 100 basis points week-over-week as buyers re-enter the DUS market and end accounts come off the sideline. The market remains volatile and its depth is untested, but additional stimulus programs this week should help provide support.

Investment Sales

- Market conditions will create a new transaction cadence in the mid-term.
- We are advising all clients to be thoughtful and proactive in all aspects of operational details and nimble in terms of capital market expectations/activities.

Sale transactions which are closing are deals put under agreement before the health crisis and many of those successes are doing so as somewhat modified transactions from previous expectations. Market conditions will create a new transaction cadence in the mid-term. Meanwhile, there is a state of increased “pausing” in the near-term. The inability to tour a property, that property’s non-typical physical performance and the unknowns regarding near-term (through June at least) rent collection realities, all combine to create/support this “pausing” phase.

In consultation with our selling clients, we continue to be extremely thoughtful with regards to taking out new offerings and provide guidance, on a case-by-case basis, regarding adjustments for current offerings and their marketing timelines. We are advising all clients to be thoughtful and proactive in all aspects of operational details and nimble in terms of capital market expectations/activities.

We continue to rely on their extensive local market expertise and immense transactional experience in all market cycles, to provide honest, real-time and actionable market insights to their clients.

Multifamily Research

- The NMHC recommends apartment operators work with residents to identify financial assistance offered by federal, state, and local governments, as well as community organizations.

With today falling on the first of the month, the National Multifamily Housing Council (NMHC) has provided guidance for apartment operators to communicate with residents and to assist those who were financially burdened by the pandemic in connecting with resources to pay rent. The NMHC breaks down the upcoming federal assistance and provides a template for operators to provide renters that explains the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Beyond the recent relief legislation, the NMHC recommends apartment operators work with residents to identify financial assistance offered by federal, state, and local governments, as well as community organizations. To help ease the burden on financially stressed residents, the NMHC also recommends the halt of rent increases for the next 90 days.

Fannie Mae and Freddy Mac

- Details on forbearance are emerging from Freddie Mac and Fannie Mae as their asset management teams work to comply with regulatory requirements while addressing numerous process related issues.

Details on forbearance are emerging from Freddie Mac and Fannie Mae as their asset management teams work to comply with regulatory requirements while addressing numerous process related issues. Borrowers should contact their client relations manager with any questions related to forbearance process and documentation. We remain focused on funding and delivering loans in the pipeline and anticipating potential issues and delays caused by closures. The quote process continues for new business at both Freddie Mac and Fannie Mae. Look for conditions in new quotes addressing partial diligence (inspections) and the impact of changing collections on loan terms. Deals in markets dependent on hospitality, energy and travel will see more conservative terms, while forward looking programs such as lease-up, value add, and student deals may not be quoted. Finally, early rate lock executions at both GSE's remain on pause

Life Companies

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Life companies are finishing the closing of transactions that were signed up prior to the market disruption. In addition, the majority are still open to new deals. They will be very selective in this market and leverage has come in considerably. Pricing has settled in a bit as corporate bond spreads came in late last week. Fixed rate coupons are in the 3.50-4.75% range depending on term and leverage. Floating rates will likely be in the 4% range with a couple of players below that for prime industrial opportunities. Many shops are getting inundated with borrower requests for relief on existing loans. Each life company will handle differently and on a case-by-case basis.

FHA

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Regarding HUD's response to the COVID-19 pandemic, HUD is not currently reducing loan proceeds, but we are seeing requests for debt service reserves pop into closing requirements. At this point, HUD is looking for customized additional collateral in cases where there is a risk of short-term rent disruption, but they may come out with a more clearly defined program in the near future.

HUD has not finalized its forbearance program but is actively working on it. FHA lenders are actively working to craft a program that can be implemented at scale to assist our clients in the event that their collections are disrupted, and they need the assistance identified in the CARES act.

Conduits

- While AAAs spreads have tightened 150 bps over the past week, the BBBs remain stubbornly priced at S+1100 bps.

The CMBS market remains closed. While AAAs spreads have tightened 150 bps over the past week, the BBBs remain stubbornly priced at S+1100 bps. No doubt, AAAs have improved as the Fed purchases of agency CMBS have begun and corporate bonds have come in. However, we are still a long way off from where spreads would need to be in order to justify new issuance. Current inventory of loans sitting on conduit balance sheets were priced in a very different market. Additionally, new loan origination is hampered by the fact that it is very difficult to get a valuation which has any credibility to reflect what markets and the economy will look like on the other side of the crisis.

Debt Funds

- With the slight improvement in fixed income markets, the value of bridge loans held by Debt Funds has somewhat improved.

With the slight improvement in fixed income markets, the value of bridge loans held by Debt Funds has somewhat improved. Still there is no way to get around the "risk off" mentality of warehouse lenders. This clearly handicaps any new lending. Additionally, there is no business plan for a bridge loan which makes sense with stores closed and tenants out of work. There are a handful of Debt Fund lenders still willing to make new loans, but those tend to be either "middle of the road" floating rate requests or short-term loans bridging a desperate borrower in a desperate situation.

Banks

- New business for many banks is sidelined as their credit departments have no clear picture of what property cashflow and borrower liquidity will look like when the country gets back to work.

Banks are still figuring out their best strategy. Most are still in asset management mode as they deal with forbearance requests. New business for many banks is sidelined as their credit departments have no clear picture of what property cashflow and borrower liquidity will look like when the country gets back to work. Those who are looking at new business are considering only stable assets with an established borrower who just wants a floating rate loan. In that case, the bank is focused on their own cost of capital rather than alternative investment opportunities. Construction lending remains at a standstill.

Hotels Hospitality

- In comparison with the week of March 17-23, 2019, RevPAR decreases met an unprecedented level of -70%.

In comparison with the week of March 17-23, 2019, RevPAR decreases met an unprecedented level of -70%. Seven out of 10 rooms were empty around the country last week. That is worse than those seen during 9/11 and the financial crisis. The industry is no doubt facing a situation that will take a concerted effort by brands, owners and the government to overcome.

In a letter to the U.S. Treasury, the Fed and the SEC, the American Hotel and Lodging Association (AHLA) and Asian American Hotel Owners Association (AAHOA) requested government assistance to avoid defaulting on at least $86 billion in loans over the next several months. Some believe that without increased government funds, in additional to the recently approved $2 trillion CARES Act, the hotel industry could be the first in a wave of debt defaults, foreclosures, and bankruptcies that would set off a chain of events similar to the residential MBS market crash of 2008. The impact would hit everyone from real estate investors and pension funds to the average homeowner.