

Walker & Dunlop Covid-19 Market Update

In an effort to keep friends updated on the capital markets environment and offer ideas/feedback, we've put together the below summary which offers insights to the capital markets world. We are living in unique and potentially challenging times. With that said, over the past 40+ years it seems there have been unique/challenging times every 10 or so years. Whether it be the Prime Rate going to 21.5% in the early 80's, the 9/11 attacks or the 2008 Great Recession it seems we all figure out a way to get thru and continue to grow.

Stay safe.

Your friends at Walker & Dunlop

Chad B. Kiner

A.J. Mangan

April 7, 2020 Update -Week 4:

Fed Reserve

The number of Americans filing for unemployment during the week ending March 28th reached a staggering 6.648M, bringing the two-week total to just shy of 10M. The Nonfarm Payroll report for March is *not* likely to reveal a large decline as the BLS survey is always conducted in the week containing the 12th of the month, in this case the week of March 9th-13th before any widespread closures, so any survey respondents working at all during that week will not yet count as unemployed. The April Payrolls, which will be reported on Friday, May 8th will paint a different picture. According to our internal model, maximum unemployment is still 5 weeks out and a lot of the fear in the markets emanates from not knowing how long this virus induced economic halt will last.

The NY Fed purchased ~\$1B in Freddie K A2's on Tuesday and again on Thursday with the purchase of \$1.5B in DUS loans - size of \$5M+. Friday included \$500M in GNMA Project Loans with a size of \$5M+. The Fed's participation in Agency CMBS has been evident across nearly all products and has resulted in remarkable spread tightening for the products they are buying. **For most products we've seen spreads stabilize somewhat this week.** However, certain products (non-standard prepay) and/or deal characteristics (<\$5M) aren't being let into the party and have backed up.

The 10 Yr UST is 2 bps lower than last week at 67 bps and spent most of the last 5 days lower in the 60 bps range.

News Worthy

- Ohio Executive Order (attached) on Commercial Evictions and Foreclosures – including rent suspensions.
- PA/OH lead in unemployment claims - <https://www.pghcitypaper.com/pittsburgh/pennsylvania-leads-the-nation-in-a-record-week-of-new-unemployment-claims/Content?oid=17017065>
- Freddie/Fannie are no longer underwriting any commercial income – just underwriting any commercial income to \$0 on agency loans
- Fed lowering Leverage Ratio Requirements: <https://www.reuters.com/article/us-health-coronavirus-fed-banks/federal-reserve-lowers-community-bank-leverage-ratio-idUSKBN21O1M7>

Capital Sources Overview – removed this section this week as it is more of the same. Banks seem to be focused on the SBA PPP loans and do not have as much time to focus on new originations – this should clear up after this week.

- SBA Relief Program: <https://commercialobserver.com/2020/04/lenders-scramble-as-rollout-of-sba-relief-program-begins/>

Property Types

Multifamily:

- HUD looks a little more attractive in today's world as construction projects might currently be on delay allowing for the timing needed to do a HUD loan.
- Will know the real story on April rental collections by the end of this week as most owners have a grace period to pay rent – so far indications have not been as bad as some anticipated

March 30, 2020 Update -Week 3:

Fed Reserve

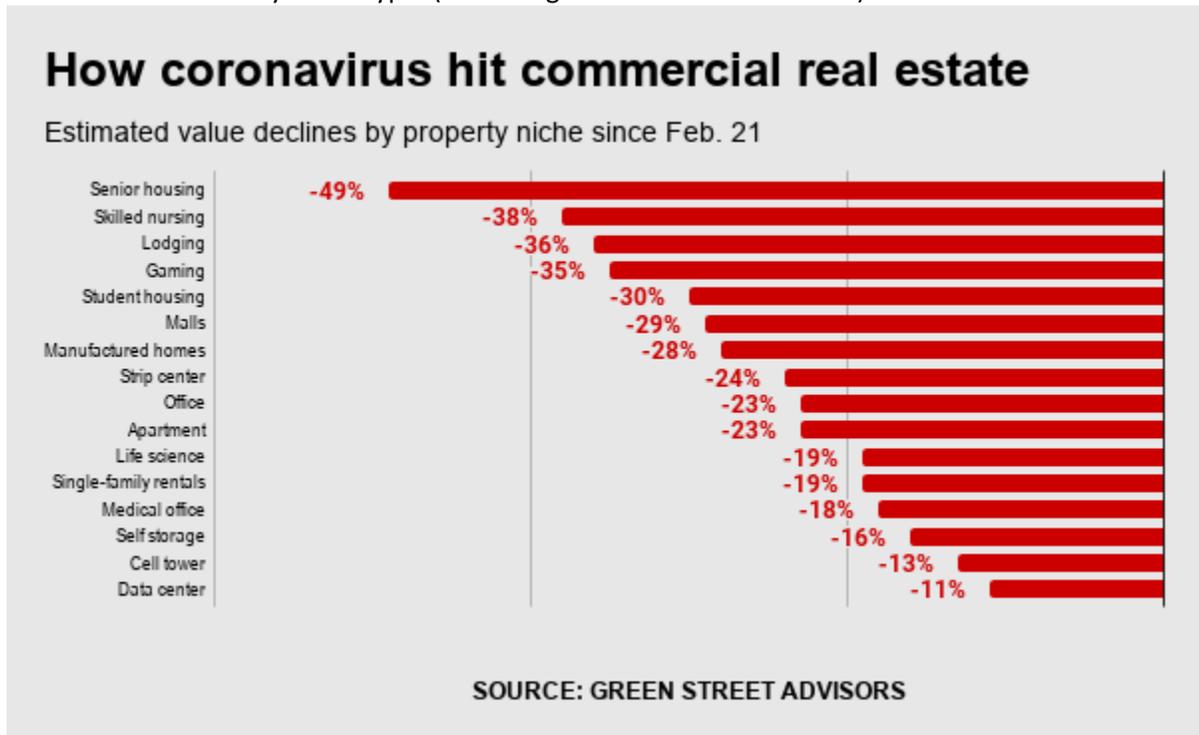
A monumental \$2 trillion stimulus package has been negotiated and passed last week. The aid package has provisions for small and large businesses and for individuals. Cash (checks) could be mailed out to households as early as April 6th and unemployment benefits have been expanded.

Whether it's positive sentiment or the upcoming Fed participation in Agency CMBS, we have buyers coming back into the DUS and GNMA space with inquiries for certain products. As a result, Fannie/Freddie spreads have been tightening materially over the last week reversing some of the panic widening we experienced the week prior. The equities market has a strong week and continued to experience gains today.

The last two weeks the 10 Yr UST has been around 72-74 bps at Monday close. Today we are slightly lower at 69 bps (reminder, prior to this month the historic low on the 10 YR UST was 1.37% in 2016). Little less volatile over the past week but still high volatility when comparing to 'normal' times.

News Worthy

- RENTCafe, an online multifamily marketing tool, experienced a 25% decrease in activity over the past week – as we know leasing activity is going to take a hit while most of the nation is on some form of shut down
- COVID-19 Value Hits by Asset Type: (According to Green Street Advisors)



- Bonds continue to trade at wide spreads creating wide spreads for CRE loans – second widest level in 20 years: <https://www.morningstar.com/articles/973818/corporate-bonds-at-second-widest-level-in-20-years>

Capital Sources Overview

GSE (Freddie/Fannie):

- Fannie lowered their 10 YR UST floor to 0.90% while Freddie has remained the same 0.75% floor in place on all new loans
- Forbearance program announced and, in the works,
- Requiring debt service interest reserves on all new loans – 6/12/18 month requirements depending on where the loan falls from an underwriting perspective
- Spreads have tightened close to 100 bps from widest point over the past week as the Fed is actively buying Freddie/Fannie paper – Fed is only buying paper for deals \$5 MM and up meaning smaller deal spreads are not seeing the tightening
- No Early Rate Lock program leaving borrowers to deal with volatility until closer to closing when you can rate lock

Life Companies:

- Bond spreads widening continues to push spreads wider for CRE loans with Life Cos – here is a link to the FRED Graph to track bond yields: <https://fred.stlouisfed.org/graph/?g=quIX>

CMBS:

- See attached memo put together by Frost Brown Todd in regard to ‘Avoiding Landmines’ on non-recourse loan carveouts for CMBS loans

Property Types

Industrial: Increased demand for warehouse space: <https://www.nreionline.com/industrial/increased-demand-warehouse-space-and-labor-created-covid-19-could-be-long-term-trend>

Multifamily: Big week for multifamily assets as rent collections for April will start this week

- <https://www.forbes.com/sites/dimawilliams/2020/03/30/with-rent-soon-due-apartment-industry-already-copes-with-coronavirus-effects/#385b67ca347a>

Retail: Continuous cycle of news on layoffs/furloughs

- DSW: <https://footwearnews.com/2020/business/retail/designer-brands-dsw-unpaid-leave-coronavirus-1202954877/>
- Landlords on Free Rent: <https://www.miamiherald.com/news/business/real-estate-news/article241531996.html>

Hotel:

- <https://www.cpexecutive.com/post/qa-how-can-hotels-prepare-for-an-optimized-recovery/>

Stay healthy!

March 23, 2020 Update – Week 2

Fed Reserve

This morning the Fed announced they would purchase treasuries and MBS “in the amounts needed”, or simply stated an open-ended QE with unlimited balance sheet. The purchases for this week have been increased to \$375B in Treasuries and \$275B in MBS. The Fed will also purchase corporate bonds, asset backed securities, municipal bonds, and **commercial mortgage backed securities issued by government-supported entities**. There have been some dislocations in the secondary markets for our paper, which have contributed to widening spreads for new issue. With the Fed supporting this market we may be on the road to some relief. However, this is largely dependent on the speed and quantity of purchases. This announcement alone is likely to lead to massive bid lists hitting the market.

The Fed also announced three new lending facilities totaling \$300 billion in financing backed by \$30 billion of credit from the Treasury. One of these facilities is a relaunch of the Term Asset-Backed Securities Lending Facility (TALF) and the other two support corporate credit markets by lending to investment-grade companies and buying corporate bonds.

Last Monday when I sent out this email the 10 Yr UST was at 72 bps and today as I write this the 10 Yr UST is sitting at 74 bps. Thru the week the index increased over 55 bps to 1.27% and has since retreated to where it was at the beginning of last week.

Capital Sources Overview

GSE (Freddie|Fannie):

- Trying to figure out ways to do appraisal and site inspections via Zoom Video to remove delays due to people not being able to or not wanting to fly for site inspections or go to site inspections
- Agencies are working from home for the most part which is creating potential delays in quotes/commitments/closings
- Freddie Small Balance program (loans under \$7 M) increased rates another 35 bps this morning (on top of the 15 bps increase on March 9 and the 25 bps increase on March 16) – pricing is still in the low to mid 4% range on 75% LTV deals in Columbus. Historically this is great – compared to 3 weeks ago this is 70 bps wide
- Conventional program pricing has been very volatile - US Treasury floors have been put in place and are changing almost daily
- Limiting exceptions and sticking to a narrower box on new loan requests

Life Cos:

- Everyday it seems another Life Co has pushed the pause button – the Life Cos that are still in the market are looking to put money out but spreads have widened and Multifamily and Industrial are favored
- Pausing on hospitality, senior living, student housing and some retail across the board
- One Life Co told me there were able to buy 10 year paper on Disney and UPS for 3.70% and 4.30% - this is playing into the spreads widening as comparing CRE risk to Disney/UPS does not play well for CRE

CMBS:

- Volatile, fluid market that is changing every day. Most CMBS loans are moving towards a floor rate depending on leverage, debt yield, ect. Deals are still being quoted but with CMBS you do not lock in rate and final spread until closer to closing – CMBS deals can be ‘re-traded’ and in today’s environment that is more likely than usual.

Banks:

- Finding that banks are focusing on their current clients and portfolios and being flexible to help in tough situations. They are quoting new deals but deals need to fit in the box and they are not stretching outside the narrow box.

Credit Unions:

- Less regulated than Banks and operating with a business as usual approach and are in a competitive position to win business right now

Property Types

Hotels: Operators are closing hotels and working with lenders to move into Interest Only or debt service deferment for 90-180 days`

Multifamily: As we approach the first of the month multifamily owners/operators are bracing to see what delinquency looks like: <https://www.bisnow.com/new-york/news/multifamily/city-landlords-ready-themselves-for-wave-of-unpaid-rent-103538>

Student Housing: Still on complete pause.

Retail: A client that owns 10+ properties retail properties told us they are estimating 80-90% of tenants will not be making April rent payments. They have already received letters from national retails indicating they will not pay April, May or June. Some article links below:

- [Retail Job Cuts](#)
- [Dollar General to hire 50,000 Employees by end of April](#)

Stay healthy!

March 16, 2020 Update – Week 1

Fed Reserve

Powell's press conference following yesterday's FOMC announcement made it clear the Fed and US Govt had a serious challenge in the coronavirus. "The economic outlook is evolving on a daily basis and it really is depending heavily on the spread of the virus," Powell said. "That is just not something that is knowable." Powell stressed that US fiscal policy is critical to supplement the recent drastic monetary policy measures.

This week is set to start off with one consistency from last week, and that is high volatility. As markets opened in Asia last night Treasury yields plunged along with equity futures, which once again hit limit down. The 10-year yield dipped below 0.65% after briefly hitting 1.00% Friday afternoon. The 10-year is currently yielding 0.72%, down 22 basis points from Friday's close – potentially +/- 25 bps by the time you're reading this ☹️.

A day after a dramatic move in interest rates, **the Federal Reserve on Monday increased the amount of liquidity it's offering in short-term lending to the financial industry.** Benchmark Fed Rate is now 0% and there is currently a plan for \$700 billion of quantitative easing.

In a mid-day announcement, the New York Fed said it will conduct a \$500 billion repo operation this afternoon, another move targeted at keeping money flowing through the system. Repo involves banks putting up high-quality collateral like Treasuries in exchange for the liquidity they need to conduct operations.

CRE could benefit from The Fed cutting interest rates to near-zero Levels – If things reopen: <https://therealdeal.com/2020/03/13/real-estate-stocks-split-into-winners-and-losers-after-hectic-week/>

Capital Sources Overview – Capital is out there and is still being put to work

GSE (Freddie|Fannie):

- Experiencing volatility at the highest levels since the 2008 financial crisis with wild price action throughout the day and in the overnight hours.
- Minor Changes to the Program are happening daily (i.e.: Please be advised that Freddie Mac will no longer offer Index Locks for Supplemental loans, Seniors Housing loans, Student Housing loans, or Lease-Up loans)
- Agencies are working from home for the most part which is creating potential delays in quotes/commitments/closings
- Freddie Small Balance program (loans under \$7 M) increased rates by 25 bps across the board this morning (following a 15 bps increase last week) – they have an all hands on deck call tomorrow – currently deals in the North Central Region (Ohio) are pricing around 4% on a standard 10 year fixed deal
- Conventional program pricing has been very volatile - US Treasury floors have been put in place and are changing almost daily

Life Cos:

- Mixed Bag as of today – some Life Cos are open and operating with the business as usual approach and others have hit the pause button
- Pausing on hospitality, senior living, student housing and some retail across the board

- Spreads have widened – I have a deal signed up at 3.45% (within the last couple of weeks) that I was told would price around 4.15% today. With that said, pricing is still in the low to mid 3% range for standard Life Co deals with strong underwriting and sponsors.
- Multifamily is clearly the only asset type currently in favor and for lower leverage deals we are seeing a floor of 3% with some Life Cos
- Not being overly aggressive to win business today – sticking to the straight down the middle assets that fit their standard platforms
- Bond Spreads are impossible to nail down in a low volume, inefficient market today making it tough to price CRE spreads
- Some Life Cos are currently working from home and being challenged with staying efficient

CMBS:

- Volatile, fluid market that is changing every day. Most CMBS loans are moving towards a floor rate depending on leverage, debt yield, ect. Deals are still being quoted but with CMBS you do not lock in rate and final spread until closer to closing – CMBS deals can be ‘re-traded’ and in today’s environment that is more likely than usual.

Property Types

Hotels: Hotels are getting hit hard - especially hotels that are dependent/associated with conferences as conferences. Hopefully this is a quick blip in the hotel industry and things are back to normal in the next 3-6 months. Returns for lodging and resort REITS are now down 53% since the start of 2020 making it the worst performing sector by a significant margin. <https://therealdeal.com/2020/03/13/real-estate-stocks-split-into-winners-and-losers-after-hectic-week/>

Student Housing: The lending market has hit pause on student housing as schools have closed and potentially are canceling the rest of the academic year.

Retail: States are closing bars/restaurants one by one. Retailers are closing due to the outbreak: <https://www.cnn.com/2020/03/15/these-retailers-are-closing-stores-to-slow-coronavirus-outbreak.html>

Deals Falling out of Contract

We have been informed that deals are falling out of contract in the Columbus market right now as buyers are pulling back to reevaluate and see how things play out right now.

Leasing Velocity

Multifamily owner/operators are bracing for a slowdown in leasing activity just as the Columbus market approaches its active leasing season. Being preemptive and figuring out ways to renew current tenants now may prove to be a good strategy over the next few months.

Sponsor Game Plans

We have had lenders request ‘Sponsor Game Plans’ on deals going into committee this week or next week. I would imagine this becomes more of a standard request from lenders. Lenders will want some comfort in understanding how borrowers are going to handle their portfolios in regard to COVID-19 for the foreseeable future. We are currently helping clients put together their game plans for lender presentations and are happy to help others if we can add value.

Stay healthy!