



MBA hosted a call Thursday with commercial real estate finance industry leaders covering current events and market developments. MBA Board chair, Brian Stoffers of CBRE kicked off the call to welcome participants and introduce speakers.

**Christine Chandler**, Chief Credit Officer & Chief Operating Officer, M&T Realty Capital Corporation

**Gregg Gerken**, Executive Vice President & Head of U.S. Commercial Real Estate Lending, TD Bank Commercial

**T. Anthony Premer**, Senior Vice President, Real Estate Investments, Pacific Life Insurance Company

**Matthew Rocco**, Chairman of the Board & Chief Executive Officer, Grandbridge Real Estate Capital, LLC

**Erin Stafford**, Managing Director, CMBS, DBRS, Inc.

### **Macroeconomic Considerations**

Jamie Woodwell set the stage for the conversation with his blog earlier in the week, [“Coronavirus, Treasuries and Commercial Real Estate.”](#) As things are changing quickly, Woodwell provided a timeline of events and MBA’s analysis:

- o January 11 – First Chinese death reported
- o January 20 – Other countries (including US) confirmed cases
- o January 30 – World Health Organization (WHO) declared global health emergency
- o February 5 – Diamond Princess cruise ship quarantined in Japan
- o February 14 – First death reported in Europe (France)
- o February 19 – 443 passengers leave Diamond Princess
- o February 23 – Surge in cases in Italy
- o February 24 – Iran announces 61 cases and 12 deaths
- o February 25 – CDC noted that they expected community spread in US
- o February 29 – First US death recorded
- o March 11 – World Health Organization declared the virus a pandemic

A key turning point for the US financial markets occurred two weeks ago, when the CDC noted an expectation of community spread within the US. Prior to that, most of the focus on earnings calls and analyst reports had been on the US impact from international slowdowns. At that point, the US focus turned inward and we saw equity and Treasury markets respond. The Federal Reserve responded with a 50 basis point drop in the Fed Funds rate in a rare intra-meeting move.



The next major turning point was last weekend with the international economic slowdown, oil markets slumped in expectation of slower demand. In response, Saudi Arabia announced increased production and lowered prices, which sent oil prices down, and set off concerns about equity and debt tied to that part of the economy – and beyond.

	2/12	3/12
Dow	29,551	21,200
10-year Treasury	1.62%	0.8%
Brent Crude Price per Barrel	\$56	\$35

### Commercial Real Estate Finance

Commercial real estate isn't immune to these market gyrations, but it is differentiated. When we look at the way the situation has unfolded elsewhere and our economic forecast, MBA expects a significant slowdown in economic growth in the second and third quarters of this year and also that the Fed will drop the Fed Funds rate another 50 basis points in their upcoming meetings. Importantly, we also forecast economic growth coming back in 2021 as the impacts of the virus fade.

The bad news is that there is a great deal of uncertainty in the markets right now. The good news is that the commercial industry enters this period from a position of considerable strength.

Mike Flood then moderated a panel conversation with members representing various capital sources to get perspective on what's happening in their shops and how they are approaching an historic week for US and global markets.

Below are a few key take ways:

-Structured Finance: While CMBS began the week with an active pipeline of transactions in the queue for the coming weeks, spreads have widened considerably this week along with broader markets and the ability to effectively quote loans and price risk is a challenge. Hotels are the property type to watch for coming financial challenges as their room rates reprice daily so they are often the first to struggle then later recover. Accordingly, issuers have been getting negative investor feedback from bond purchasers on transactions with hotel exposure in particular.

-Agency and FHA Lending: While the GSEs are actively lending, the market volatility is impacting pricing in real time which is a noticeable shift from business as usual. The question was raised of whether FHFA could potentially raise the GSE's multifamily lending caps was although the group did not list multifamily as a primary problem asset class in today's market environment.



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-MSRs: Some institutions have warehouse lines for lending funded by the value of their mortgage servicing rights. While there is an incredible amount of single family refinance demand with low rates, an increase in prepayments lowers the value of MSRs which can create strain for some market participants even as they may benefit from increasing refinance volumes. This is an issue to be aware of but shouldn't affect multifamily lenders.

-Property Types: Noted property types that were brought up on the call in what will be a large scale portfolio review process taking place across institutions were hotels and anything generally impacted by lower travel expectations. Additionally, student housing and seniors housing were noted as property types that will need to be closely monitored.

-Retail: JLL just reported that there are now more service-related retail spaces than goods-related, which plays into how the virus will affect those spaces. The size of the US outbreak, and how we react publicly and privately, will have a significant impact on how retail properties are affected.

-Oil Prices: Given the price of oil has dropped from the \$50 range to \$30 range in such a short period of time, there will likely be strains and challenges that ultimately hurt the businesses of commercial real estate tenants involved in energy.

-CECL: the new accounting rules for helping to establish reserves was discussed in light of the changing macroeconomic situation and outlook given the spread of Coronavirus (COVID-19). This will be a modeling challenge all institutions falling under CECL guidelines are now faced with given the requirement of estimating life of loan loss upfront. CECL has the potential to impact pricing or other terms such as length of loan.

-Operations: and the ability to close loans and inspect properties be impacted? This is a question in the short term all lenders are dealing with. MBA will facilitate a call with the Department of Housing and Urban Development and their lending partners to discuss these challenges for multifamily/healthcare FHA lenders; however, the challenges are impacting industries across the country and there is real uncertainty about how the situation will play out.

MBA will continue to facilitate dialogue and share relevant information and research as events unfold. We expect to be active on the policy front as well as actively communicating with members to ensure we are providing strong intelligence and advocacy for the real estate finance industry in uncertain times.

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