Market Fax
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Stay Positive

We are thankful to witness individuals, businesses, local, state and federal government working together to address the Covid-19 in a positive way; we will get through this. Most real estate developers are smart, successful, self-reliant and proactive, which is why we enjoy this business and the ability to help our clients.

Our perspective: As a Grand Rapids based, independent, commercial mortgage banker we do most of our mortgage origination with life insurance companies; 87% over the past $350 million in deals and 94% last year. With that in mind we offer the following comments:

- Volatility & uncertainty is the current norm.
- All lender employees are working from home. Technology has enabled work to progress, albeit a bit slower. Many, but not all, are on the sidelines because of the volatility and uncertainty.
- Life companies lock rate at application and want "certainty of delivery." Thus, they are reluctant to quote a deal only to have pricing change in the short time between quote and rate lock.
- Life companies have alternative investment options like investment grade corporate bonds. The volatility in March, as illustrated in the chart below, shows the large swings in the AAA Corporate Bonds in a short period.

US Corporate AAA Effective Yield / Change		
3/6/2020	1.79%	
3/13/2020	2.39%	0.60%
3/16/2020	2.28%	0.11%
3/20/2020	3.36%	1.08%
3/27/2020	2.24%	1.12%

- With the current pause in economic activity many borrowers are concerned about their tenants' ability to pay rent plus the ability to keep their loans current. Lenders are also concerned about the need for loan modifications or work outs. The CARE Act has provisions to assist small business and we offer our Memo to Borrowers Seeking Mortgage Relief. Please drop us an email and we are happy to share.
- Suggestions for commercial mortgage borrowers:
  - Communication is the key.
  - When we get beyond this crisis, structure your long-term commercial mortgage debt to be prepared for the next crisis. No one predicted this one but once we are through it, structure your real estate debt transactions that you intend to hold long term and legacy assets to guard against future issues that could trigger loan covenants or defaults like LTV, DSC, occupancy, or other unknowns that negatively affect your property.
  - Stay liquid and manage your risks, such as interest rate, balloons and covenants.
  - If you will be in the market for a long term (10-30 year) fixed rate commercial mortgage loan this year, now is the time to prepare. When the market comes back those that are prepared will obtain the best execution.

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