



# nerej

## **The Real Estate Finance Association March update – REFA hosts its first webinar**

April 10, 2020 - Financial Digest

While some planned REFA events had to be cancelled due to concerns surrounding the ongoing COVID-19, REFA is working hard to act as a resource and keep its membership engaged virtually during this time.

On Thursday, March 26th, REFA held its first webinar • The Impact of COVID-19 on Commercial Real Estate: Challenges – Implications – Best Practices. The webinar featured the following speakers from a range of industries: Robert Allaire, Allaire Risk, LLC; Paul Ayoub, Nutter; Jon Davis, The Davis Companies; Wendy Fiscus, Nutter; Robert Palter, McKinsey & Company; Claudia Piper, Webster Bank; Navjot Singh, McKinsey & Company; and John Wolff, Bank of America.

Top Takeaways from the Webinar:

- Confusion about construction projects with city and state regulations in conflict. 130 City of Boston construction projects stopped with \$7 billion in value.
- Construction is struggling with supply chain issues. Chinese factories have largely been open for the last week or two. Some Canadian factories are now getting back up and running if they have contractual obligations that pre-date the crisis that they need to fulfill.
- Capital Availability coming into the crisis was very strong in the US banking system and has been available through the banks as businesses and consumers tap credit lines without issue. That said, capital will become more precious as this downturn persists in length and bank earnings decline from recessionary factors.
- Debt funds will be severely impacted in the current environment due to higher exposure to impacted asset classes including hotels and retail and potential mark to market/covenant issues from funding sources; and loss of ongoing funding sources from banks and the CLO market.
- CMBS has been impacted with new loan originations and issuance essentially shut down; will be on the sidelines until market certainty improves and bond buying resumes.
- Pricing of CRE Capital has widened considerably for both public and private debt and loan markets. Price discovery in process although there are fewer transactions so spread and floor requirements vary considerably. New loan originations in general will likely require significant spread increase of 100bps +/- with floors of 75bps+/-.

- **Regulatory Assistance:** Interagency guidance from federal regulators this week encourages financial institutions to defer payments on loans impacted by COVID-19 for up to 180 days. This guidance allows banks to work with borrowers who will have troubles meeting their requirements due to COVID-19, especially on hotel and retail loans, without these loans being accounted for as Troubled Debt Restructures (or impaired). Loans must be current prior to the crisis to be eligible for this type of modification and payment relief.
- **Pandemics** typically do not fall into Business Interruption Insurance. Landlords may also try to make claims under other sections of their insurance policies.
- **Force Majeure:** There is only a small amount of case law on the subject of Force Majeure over the past 100 years and cases do not relate to pandemics. For any claim, the language must be closely reviewed to determine applicability. A governmental shutdown of construction sites would likely qualify as an unanticipated event beyond the reasonable control of a party. Even if a contract does not have express Force Majeure language, the common law doctrines of frustration of purpose and impracticability may apply. Keep in mind that even if Force Majeure does apply, that may only permit a delay in performance and not an excuse to performance.
- Use of technology is at an all-time high, this event will drive further adoption. Challenges come with technology including privacy issues, less social interactions. Relationships will still prevail.
- Anticipating a Q4 Recovery for CRE.

On behalf of the panelists, REFA is making a donation in their names to HomeStart, an organization that helps to fight homelessness in Greater Boston. In these new trying times, REFA encourages you to support them too! Please go to [www.homestart.com/donate](http://www.homestart.com/donate) to make a donation!

To learn more, visit our website at [www.REFA.org](http://www.REFA.org). Follow us on Twitter, Instagram, and LinkedIn @REFABoston.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540