

ULI Chicago's "The Front Stoop Series"
A Lender's View of the World
April 30, 2020

Conversation Led By:

Kim Liautaud, *Managing Director, Head of U.S. Commercial Real Estate*, BMO Harris Bank & Pete Malecek, *Senior Vice President – Real Estate Market Executive*, Bank of America Merrill Lynch

On April 30th, a small group of ULI members gathered digitally for the most recent edition of the Front Stoop Series. See below for the main takeaways and a brief outline of the discussion.

It is still too early to say what the full impact of COVID-19 will be on the commercial real estate industry and where we go from here

- The most impacted sectors are retail and lodging, but it will take time for the dust to settle to view the extent of the damage
- It is time to play defense and protect investments made during this cycle, as the worst is still to come
- Lenders are currently focused on their existing portfolios and relationship borrowers, not new originations

Certain lending institutions and their borrowers are better situated than others

- Banks and insurance companies are well-positioned for the current environment due to regulatory aid (specific to banks), a prior focus on relationship lending, and moderate leverage levels across their portfolios
- Many non-bank lenders are reeling from not having regulatory support and some are faced with margin calls
- CMBS borrowers will have to work with servicers that are not concerned with future lending relationships, but only with maximizing proceeds to bond holders

New lending transactions are generally on hold for the foreseeable future, but certain asset classes are expected to attract lender attention sooner

- Given underlying sector fundamentals, multifamily and industrial assets are expected to experience a less significant effect from the economic pullback as compared to other asset classes and will be the first to rebound
- Retail and lodging assets, the most hard hit, will have the longest road to recovery and timeline for lenders to regain interest
- The office sector sits in between and it will take lenders more time to understand the impact on office buildings before seeking to originate new loans on these assets
- What will it take to start lending again? More data within lenders' existing portfolios to show that it is safe to go back in the water. A few market transactions would also help...

The silver lining and the big lesson is still to be seen as everyone's focus and resources have been dedicated to working through the present challenges. Pete Malecek did offer that while this is not a real estate phenomenon, the investments that are most impacted are those that are complicated by financial engineering, closing it out with the mantra: "Keep it simple, stupid."

Summary written by Ryan P. Kruzel, Vice President, Lincoln Property Company