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Finance

Update: Life company activity during COVID-19 pandemic

Here's the "quick and dirty" from our perspective: Lending activity isn't dead, but it isn't very predictable right now either. While many aspects of the commercial real estate world have been put on hold during the COVID-19 pandemic, certain areas remain active and are trending in a positive direction. Life insurance companies still are actively lending; however, each company is taking its own unique approach to evaluating new business. Unlike banks, life insurance companies are not governed by one body at the federal level; rather, they operate under National Association of Insurance Commissioners guidelines that are



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established at the state level. This allows them to function with a higher level of autonomy. However, when something such as a pandemic disrupts the market, there is not

one overarching force guiding all life companies to have the same response. This results in significant variation in lenders' appetite for new business.

As a correspondent for more than 25 life insurance compa-



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nies in the Rocky Mountain region, we are staying in constant contact with our lenders to understand their individualized approaches. At the end of April, we had outlined three major themes

from the life insurance company lending community:

1. The struggle to find accurate pricing;
2. The reallocation of resources to portfolio review/management; and

3. The need for more precaution when underwriting and closing loans.

Almost one month later, these themes remain relatively consistent, with the exception of significant progress being made as it relates to the allocation of internal resources. Many lenders have processed the numerous debt relief requests that they were inundated with in April, which has helped shift resources back to the origination side. The table outlines industrial, multifamily and retail loan quotes received prior to the pandemic, in comparison to where those same deals would price today. These terms and pricing are based upon a collection of current quotes we received on active deals in the last two weeks.

In general, interest rates are roughly 50-75 basis points higher than they were pre-COVID, mirroring the trends of BBB-rated corporate bonds, which is the benchmark life companies use to price commercial mortgages. Many of the quoted interest rates we are seeing today are in the 3.4%-3.9% range, and we have seen loan-to-values decrease about 5%. The attractive quotes with several years of interest-only payments that were common earlier in the year have

been scaled back, although one to three years of interest-only still is available for certain low-leverage requests (sub-60% LTV). Lenders are spending more time evaluating how each tenant's business is affected by the pandemic to better understand the current hardship at each property and to better anticipate future hardship. Frequent updates from the sponsor regarding rent collections and tenant rent relief requests are helpful in projecting who will be in occupancy and paying full rent at the time of funding. If there are tenants behind on rent or requesting relief, the lender may adjust the underwriting and/or incorporate a hold-back structure to account for this. Finally, many lenders also are incorporating debt service escrows to be funded at closing to eliminate any risk related to servicing debt in the near term.

There still is a significant amount of capital that insurance companies have allocated for mortgages in 2020, and that capital needs to be deployed. Lenders are figuring out how to adapt and deploy that capital in an environment that looks significantly different than it did only two months ago. ▲

	Industrial Scenario		Multi-Family Scenario		Retail Scenario	
	Pre-COVID 19	As of 5/20/20	Pre-COVID 19	As of 5/20/20	Pre-COVID 19	As of 5/20/20
Loan Amount:	\$6,000,000	\$5,000,000	\$16,500,000	\$10,500,000	\$11,500,000	\$7,000,000
LTV:	55%	60%	58%	53%	59%	60%
Loan Term:	15 Years	15 Years	7 Years	10 Years	15 Years	10 Years
Interest Only:	10 Years	None	5 Years	2 Years	10 Years	2 Years
Amortization:	30 Years	30 Years	30 Years	30 Years	30 Years	30 Years
Interest Rate:	3.10%	3.75%	3.00%	3.50%	2.82%	3.50%
Recourse:	Non-Recourse	Non-Recourse	Non-Recourse	Non-Recourse	Non-Recourse	Non-Recourse
Structure:	None	None	None	6-month debt Service Escrow	None	None
Description:	Stabilized industrial acquisition	Stabilized industrial refinance	Stabilized multi-family refinance	Stabilized multi-family refinance	Grocery anchored refinance	Three-tenant grocery anchored acquisition

Essex Financial

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