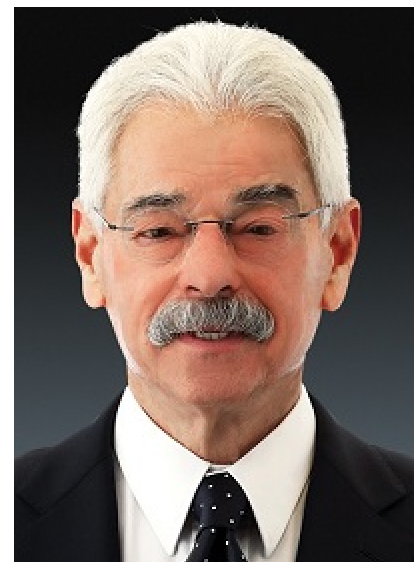
How has the commercial real estate lending landscape changed from earlier in the pandemic?

We assembled a panel of industry experts to tackle this month's question.

Here's what they had to say.

Alan R. Hammer, member, real estate practice, Brach Eichler LLC (Roseland)



Since the onset of the first pandemic in 100 years, lenders have once again embraced investment transactions, including apartment complexes and industrial properties, mostly warehouse distribution facilities. Here, lenders are able to deal with facts, not fears. Unfortunately, that is not the case for other real estate sectors.

While it is anticipated that there will be demand for hotels, motels and other hospitality facilities, no one can quantify what or when that will be. So there is hesitancy to commit to those areas. And with shopping malls, the major players have been defaulting on loans and have deeded those properties in many instances to their lenders. No great enthusiasm here, either.

With regard to office buildings, there is a near-universal belief that there will be changes in the working patterns of many people, resulting in less utilization. This is another uncertainty and there is no empirical data as to what the future will bring.

Jon Mikula, senior managing director, JLL Capital Markets (Morristown)

Early in the pandemic, lenders pivoted to asset management mode to assess the impact on their portfolios and deal with forbearance requests. That activity mostly focused on retail, office and hospitality. Lenders that utilized leverage and/or the secondary market to make

loans were on the sidelines, as that market was frozen. Insurance company lenders saw their yield requirements blow out 100 basis points in tandem with the corporate bond market. Some large money center banks also pulled back, which left local and regional banks to fill a much-needed void. Additionally, Freddie Mac and Fannie Mae continued to lend at historically low rates.

Now, so much has changed. Forbearance requests are behind us. Insurance companies are back with historically low interest rates in the sub 3 percent range. The debt fund and CMBS markets are securing quality deals with similar yield compression. Banks continue to pick their spots. Freddie and Fannie have seen their annual mandate cut by approximately 15 percent, thus opening the door for other players to compete in multi-housing financing. We now have a very competitive lending environment.

Bridget B. Wilcox, vice president, G.S. Wilcox & Co. (Morristown)

At the beginning of the pandemic, most lenders and borrowers were on the sidelines in 'triage mode' — in particular for office, retail and hotel assets. Lenders were addressing relief requests as borrowers for these asset classes had tenants who weren't open for business and couldn't pay their rent. Spreads also widened significantly for life insurance companies, in conjunction with the corporate bond market, and bank construction lending dried up as construction was at a standstill given the lockdown. Some lenders remained out of the market until the summer months, and even then remained very selective. In Q4 2020 and early Q1 2021, 10- to 15-year deals were in the low 2s, and construction financing was accessible. While treasuries have risen, pricing remains attractive, especially for industrial and multifamily assets. There are also more lending options available for office, retail and hotels, a trend that should continue as the vaccine rolls out.

Charles J. Wilkes, partner, Murphy Schiller & Wilkes LLP (Newark)

In our firm's experience, the commercial real estate lending landscape has changed fairly dramatically from earlier in the pandemic. In March 2020, our lender and borrower clients alike put the brakes on new transactions. Lenders were focused primarily on assessing risk in their portfolios and, in many cases, assisting their customers with obtaining PPP funding and/or loan modifications. Borrowers were similarly focused on dealing with the fallout from COVID-19-related restrictions. Now, March 2021 is already proving to be remarkably

different than March 2020. There is a renewed focus on new transactions. Record (or near record) low interest rates are driving activity in the commercial real estate lending markets. And, the introduction of multiple COVID-19 vaccines has boosted a sense of optimism in the marketplace — that the worst is behind us and that life will return to normal. We believe that 2021 will be a strong year, with robust levels of activity across all sectors of the commercial real estate market.

Randall Williams, senior managing director, commercial real estate, Peapack-Gladstone Bank (Bedminster)

Early on, real estate lending froze. We thought the worst. Now, lending is increasing, with sales and refinancing opportunities showing movement. The hospitality industry is still suffering, and we could be a year from understanding the damage. Medical office, multifamily and grocery are improving.

Multifamily fared best. Early on, rent receipts were under pressure as landlords worked with tenants. We provided loan deferments, most of which have returned to performing. Now, we understand the pandemic's effect on rental income, and we underwrite more conservatively, but financing is possible.

Retail has seen slow payments. We look for lower leverage properties and take reserves for collection issues. Office has done better; however, remote working may cause companies to downsize as leases mature. Knowing the sponsor has become very important.

Lending activity should increase with a more widespread vaccine rollout, and 2021 should move forward slowly as the pandemic hopefully continues to diminish.

James S. Vaccaro, chairman, president and CEO, Manasquan Bank (Wall)

The commercial real estate lending landscape has evolved in some interesting ways during the pandemic.

As is normal at the commencement of any major economic/societal disruption, the initial market reaction was more severe than the economic realities. Commercial real estate borrowers simply requested forbearance 'Because' and, in many cases, lenders complied with the ask.

That scenario was predictable, logical and in retrospect prudent. Those actions served two primary purposes:

1. Provided the setting for a more frequent and open dialogue between the borrower and the lender.
2. Allowed for a needed time assessment to determine the potential positive impact of the stimulus package — namely, the Paycheck Protection Program loan.

That “maintenance” dominated scenario quickly shifted to one in which market opportunities and perils became more apparent. While the ‘stock’ of owner-occupied rose, that of the retail sector lost favor. Warehouse surfaced as being a strong prospective sector as the future of the entire supply chain management/distribution management sectors brightened.

Simultaneously, underwriting focus shifted a bit as well as the leases on tenanted properties not only focused on lease terms and duration but also particular attention being paid on tenant business market staying power.