

# Marcus & Millichap

## THE HATCHER GROUP

March 23, 2020

### *A Message from The Hatcher Group*

Dear Friends and Clients,

Most importantly, it is our hope that you and your families are staying safe, healthy and a calm spirit in these unprecedented times. The Coronavirus has taken the world by storm, bringing the economy some severe headwinds and uncertainty.

*Our promise to our clients is that we are more prepared than ever to serve you!*

**The one thing we are certain of is that we will all get through this together and you can count on The Hatcher Group and Marcus & Millichap to keep you as prepared and educated as possible.** We will do this by working harder than anyone else and doubling down on our communication to stay hyperconnected to our clients, the lenders and industry leaders every day!

This week our team has had hundreds of phone calls, webinars, emails with clients (REITs, Private Equity and small mom and pop owners), industry leaders, and Marcus & Millichap CEO Hessam Nadji, The National Self Storage Group of Marcus & Millichap, Several Lenders and our most trusted self-storage mortgage broker, Doug Brooks.

**Now more than ever encourage our clients to reach out and utilize our team for complimentary pricing valuations for your properties as the market continues to change.**

**We have provided some basics highlights of what we are currently experiencing this week and hearing from every angle and we will continue to do so as things continue to unfold:**

- Deals are still closing, we closed two deals last week.
- Under Contract Deals are still moving forward for now and we still have 4 closings in the next 30 days and none of them seem to be halting as of now, but we may expect some of them to extend.
- We must wait and see approach for the 10 other deals we have under contract and the 8 other deals we have under executed LOI's that are not legally binding. We are expecting some extensions at the very least.
- Overall, we will continue to see slower response time from 3<sup>rd</sup> parties, lenders, buyers and sellers due to general business interruption and distracted employees due to the various fears and new protocols of the quarantine and how it effects their families.
- If you are in the process of transacting or need to transact, it is very important to be proactive and get into the market as soon as possible before lenders become overwhelmed by loan requests. Many lenders and 3<sup>rd</sup> parties are likely to be putting things on hold for 2-3 weeks or longer.
- Most buyers are still buying. Our most recent listings have received 6 offers in the last 4 business days.
- We have several buyers working on moving to all cash alternatives and we believe we have several clients prepared to do so.
- As of now capital for self-storage deals remain cheap. Buyers are expecting to maintain or potentially grow the capital they have raised to buy deals.
- The Fed Fund Rates have been cut almost to zero. This doesn't mean money is free, but lending rates remain very attractive historically speaking and they are still just slightly higher than they were just a few weeks ago.
- Banks are well funded and have strong fundamentals due to the harsh lessons learned in the last recession.
- CMBS markets remain uncertain and could potentially struggle. We are taking a wait and see approach, but our guess is that many buyers who used CMBS will have to shift to alternative options.
- The Market for Bridge Loans for lease-up and development deals are likely to face some significant disruption as well.
- New construction lending has been tightening and almost halting according to several talks with our developer clients.
- Overall, it is way too soon to predict but many experts are predicting a slow leasing period for spring which is typically the busy season for most owns. Some people speculate more move outs and delinquent renters as unemployment rates rise.

- Industry leaders and our team both agree that stabilized properties are still going to command relatively strong sale prices and demand from buyers in the next 2-6 months but their ability to close deals may be delayed due to changes and delays from lenders, 3<sup>rd</sup> party companies and their equity sources,
- Recently completed lease up deals will become increasingly more difficult due to bridge loan capital becoming increasingly scarce and the REIT's dramatically slowing down acquisitions. This will accelerate the problems on many newly built projections that have been slow to lease up and are facing near term loan maturities.
- Overall, Self Storage and Apartment markets are expected to be the most resilient CRE Market with the highest demand for leasing and property acquisitions relative to other CRE Markets like Senior Housing, retail, office, hotels and luxury apartments.

**Lastly, here are a few broader economic observations from our CEO Hessam Nadji's internal briefing late last week:**

- The US economy and the banking system was in the best shape compared to any pre-shock periods in at least the last three decades.
- Commercial and residential real estate are not the core causes of an economic or financial market problem thanks to the lack of overbuilding and overleveraging in this cycle.
- Self-Storage to be negatively impacted less than almost any other CRE asset class.
- As anticipated, the Federal Reserve has already proven to be accommodative through its interest rate cut and liquidity injection of \$1.5 trillion.

The Hatcher Group and I are proud of our Patriotic customers, and as your friends we know you want to help your communities battle COVID-19. Together we will get through this with foresight and prayer because we are united to beat COVID-19.

*Brett Hatcher & Gabriel Coe*