Pent-Up Capital Leads to Renewed Lending Activity

While lenders are being conservative in their underwriting, many are actively funding new loans.

By Kelsi Maree Borland | July 15, 2020

At the onset of the pandemic more than three months ago, the capital markets instantly froze amid extreme market uncertainty. Today, some of the dust has settled—although uncertainty remains the primary market characteristic—and the is pent up capital and many lenders actively lending on new deals.

“One of the major misconceptions about the capital markets right now is that there is a lack of available capital,” **Stephen Stein**, managing partner at **Tauro Capital Advisors**, tells GlobeSt.com. “In reality, there is pent-up capital and lenders interested in providing loans right now. The capital markets have certainly not been shielded by the impacts of COVID-19 and some lenders are being a bit more conservative in their underwriting. That said, there are still a tremendous number of capital sources available with lenders who are currently underwriting deals across all property types with the exception of hospitality.”

In addition to lender activity, this has also proven to be a good time for borrowers to secure debt for the right deal. “Interest rates remain historically low creating a strong appetite by investors for refinancing,” says Stein. “Many deals underwritten several years ago with much higher interest rates are starting to mature. In the current environment, sponsors are able to take advantage of these historically low rates to restructure their financing for long-term success.”

One of the drivers behind this misconception is that the recession is like the 2008 financial crisis. However, the dynamics of this market dislocation are much different. “The 2008 financial downturn was actually much different as it originated in the real estate market. Prior to COVID-19, the fundamentals within the real estate sector were strong. Therefore, we are confident that we will see these rebound, especially now as the economy has started to re-open,” says Stein.

In addition, the Fed and government response to this pandemic has been much quicker, and they have used many of the same tools for the recovery as in the 2008 financial crisis. “The Fed also took a very proactive approach to addressing the pandemic, which has been positive for the capital markets,” says Stein. “In March, the Fed quickly lowered interest rates followed by several other measures such as the $2.3 Trillion Cares Act to support the capital markets and maintain liquidity.”

Internally, Tauro Capital has seen an increase in deal flow since the start of the pandemic, illustrating the initial market pause before lenders began processing deals again. “Our team is constantly nurturing and expanding our lender relationships so we always know where the capital is and how to access it, says Stein. “Every week up to three lenders present to our entire team in the company’s Tuesday pipeline meeting providing real-time information. These presentations are detailed and layout the lenders specific qualifying needs. These presentations have also revealed that despite the current environment, lenders are still hungry for deals.”

The market uncertainty will be a trademark of the market for years to come, until the coronavirus is really under control. However, the capital markets won't remain on ice for that long. "Overall, while there is still uncertainty throughout the sector, and although the short and long-term impacts are yet to be determined, we believe there will continue to be a variety of capital sources available to meet investor appetite over the next several years," adds Stein.