

# Growing CRE Market Instability Vacates Bank Use of Validations

Boxwood's recent analysis of the early, knock on effect of the coronavirus pandemic on CRE space market fundamentals calls into question reliance by commercial bank lenders on Validations in support subsequent transactions.

Our market analysis of preliminary Q1 data in late March exposed weakened space market fundamentals involving rent growth, vacancy rates and demand in just the two-week window since Federal and State emergency preparedness and shelter in place mandates were announced.



Such evidence of CRE market deterioration is just a harbinger of more business disruption and paralysis to come for the U.S. economy. While the economic impact of the pandemic may not be long-lasting, millions are already out of work because of restricted commerce and business closures. Fears are growing that a damaging recession may follow.

As we indicated in a recent blog post, many bank lenders are now flooded with commercial borrower requests for loan modifications and extensions in the pandemic's wake. With this emerging CRE shift from market strength to market instability, most banks unfortunately will no longer be in compliance with the Interagency Evaluation and Appraisal Guidelines that allow them to perform Validations that rely on prior evaluations or appraisals to support loan modifications and other non-financial or subsequent transactions.

Indeed, Section XIV of the Guidelines explicitly notes that a new evaluation or appraisal will be necessary if the originally reported market value estimate is no longer valid because of factors such as: local market volatility; natural disasters; changes in loan terms or funding availability; and changes to underlying economic and market assumptions, among other criteria.

Escalating to evaluations and appraisals is a prudent and timely move for banks.

We want to remind clients that Boxwood's veteran team of licensed appraisers and senior analysts – most with over 30 years of commercial property valuation experience – have soldiered through previous downturns and recessions. Because of that deep experience, we can continue to support clients with trusted, reliable and cost-effective FieldSmart Evaluations and Restricted Appraisals through this economic and CRE market crisis.