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3 Ways SVB, Signature Failures Will Rattle Real Estate

By **Emma Kennedy** · March 13, 2023, 10:12 PM EDT

The one-two punch of regional banks Silicon Valley Bank and Signature Bank failing within days of each other put real estate owners, investors and experts into a weekend tailspin of unanswered questions and concerns about everything from new sources for loans to where to deposit incoming rent checks.

Although national discussion has focused on the immediate impacts to the startup and banking industries, Silicon Valley Bank held a significant portion of property technology company accounts, and Signature lent heavily to New York-area multifamily property owners.

The swift moves of the Federal Deposit Insurance Corp. to create a bridge bank and secure account holders' investments by Monday morning stopped a lot of the bleeding, experts say, but as the dust settles, there will likely be a significant impact to real estate and many questions that need answering.

The Death of Relationship Banking

In real estate, working with one firm or bank can be beneficial to rates and lending practices, but Ivan Gold, of counsel at Allen Matkins Leck Gamble Mallory & Natsis LLP who works in the firm's San Francisco real estate and bankruptcy practice, told Law360 that relationship banking is likely to peter out as investors balk at keeping assets in one institution.

"This will take the edge off relationship banking where you put all your accounts in one place, and I think you're going to see a lot more diversification," he said.

It's now clear that unsecured debt holders and stockholders in the failed banks are not getting investments back, Gold said, and former customers are out finding new sources of capital, now that their line of credit at Silicon Valley Bank is nonexistent.

"There's going to be a lot of banking activity over the next few weeks and months, and in certain cases that may stall [developments], whether it be product initiatives or real estate development or whatever a particular company was using Silicon Valley Bank for. It may hit a pause button until we see a portfolio of those loans being sold to another institution," Gold said. "I think we're in a heavy wait-and-see mode for a few weeks, a month or maybe more."

Sunny Juneja, CEO of proptech company Canopy Analytics, was getting fitted for his wedding suit Thursday when he got a text from his mentor telling him to get his company's deposits out of SVB.

He logged into the bank's online portal, which by that point was down, and then saw Twitter "in a meltdown" with a feed full of news about SVB's impending collapse.

"From that minute on, it became damage control, and I called five to 10 different banks to schedule an appointment," he said.

By Monday morning, Juneja was looking to JPMorgan Chase Bank NA as a "too big to fail" option in which to keep his company's funds. Canopy Analytics is a software-as-a-service business that streamlines the operations of multifamily rental portfolios.

"We just want to focus on our business and our company, and we don't want to find out on Thursday that the money we worked so hard to get from our clients and investors just disappeared overnight because some bank made poor decisions about treasury management," he said.

The large-scale shift away from regional banks is something Jay Martin, executive director of the New York City Community Housing Improvement Program, a trade association for owners of rent-stabilized properties, sees too.

Martin said he was fielding calls from multifamily property owners across the city Sunday as Signature Bank fell.

"It's important to look at every building like a separately run small business, and it has an account tied to it, a checking account where rent comes in and is deposited," he told Law360.

"These regional banks, like New York Community, Signature, Apple Bank, do the bulk of the lending to these multifamily rent-stabilized places. We're talking a million units of housing, and if they stop lending, the owners will have very limited resources to go for lending, whether refinancing or doing short-term lending for repairs," Martin added. "So that automatically means lending will get more expensive because they'll go to bigger, too-big-to-fail banks with higher interest rates."

A Critical Eye on Effects of Dodd-Frank Repeal

Silicon Valley Bank used a letter of credit model in lieu of security deposits for tenants of commercial rental properties, which Gold of Allen Matkins said has been common in the tech world for decades but could see some regulatory shift.

With a letter of credit, the bank guarantees an amount of money similar to a tenant's traditional security deposit that it promises to pay a landlord in the event of a tenant's nonpayment of the lease.

"I think a lot of people are going to start to take a hard look at standards for letters of credit," Gold said. "If you're a large institutional landlord, you're looking at what percentage of your credit instruments from your tenants are with a single institution and what that concentration of risk is … I think in the leasing areas, particularly in areas like tech or life science where SVB had a significant presence, those types of impacts will cause people to reexamine existing and pending transactions."

What regulatory focus could come from the SVB and Signature collapses is yet to be seen, but in early days, Gold predicts a harsh look at the 2018 rollback of Dodd-Frank Act provisions, a move that allowed smaller banks like these to operate outside the strict lending criteria imposed after the 2008 financial crisis.

"I mean, the regulatory answer could be that simple. This might just invite more federal regulation or a return to the former scheme," he told Law360. "Dodd-Frank was done in a panic in a much more serious situation, and it was unwound five years ago, so this calls into question whether that was too much."

Juneja of Canopy Analytics said he has been on the phone with other proptech founders and his investors for the last four days trying to figure out which bank to go to and trust with funds.

"Under the Trump administration, a lot of rules were rolled back for regional banks because they didn't want to comply with the same rules as large banks," he said. "It seems like that was not the right move. Silicon Valley Bank made a huge, awful mistake. They did so many things right, but they did many things wrong and took on way more risk than they should have."

The Toll of Rising Interest Rates

An industry that ebbs and flows with the shifts of the real estate sector and one that bears the brunt of the technology industry's struggles, proptech's woes will likely accelerate with these bank failures, according to Juneja.

He said companies like his have struggled to secure capital due to the same interest rate increases that ironically led at least in part to SVB's failure.

That financing volatility coupled with an already standoffish real estate market could lead to less business and a natural thinning of the proptech industry. For example, multifamily property companies that are already hesitant to spend money on new technology are now even less likely to close the deal if they suspect the startup's banking structure could have issues like those with SVB, Juneja said.

"I think one of the most challenging parts is that when you don't have stability, people don't want to do new things, and right now for the last year, rising interest rates have had a huge impact on the stability of real estate," he told Law360. "Naturally it's going to be a harder time selling into this industry because people are going back to basics and sticking with what they know."

Gold, who said he has weathered multiple bank failures and FDIC receiverships between the 1980s and mid-2000s, said the government's aggressive approach to stabilize the banking market over the weekend could stand as a sign of progress, but it will still spell struggle for many business owners beyond the worry of making payroll.

"This teaches us that the Fed's decision on interest rates doesn't just affect consumers because that's really a lot of what happened at Silicon Valley Bank. They were invested in securities that are interest-rate-sensitive that had lost their value, so it's a good big picture lesson for everybody," Gold said.

--Editing by Jill Coffey.