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Rates, regulations and allocations will continue to influence the market going forward

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As of year-end 2014, total outstanding commercial and multifamily debt was $2.64 trillion. By the end of the first quarter, the total increased 1.5% to $2.68 trillion. A favorable rate environment, combined with a lack of available alternative investments for lenders, set the stage for a very active 2015. In February, the Mortgage Bankers Association (MBA) projected 2015 commercial and multifamily mortgage originations to be $414 billion, a 7% increase over 2014. With $121 billion in maturities in 2015 and an additional $223 billion scheduled to mature in 2016, it wasn't too difficult to see where this projected volume could come from. The anticipated positive momentum certainly panned out with the MBA reporting commercial and multifamily mortgage originations for the first quarter up over 49% from the prior year. While the commercial mortgage market has been robust through the first half of 2015, rates, regulations and allocations will continue to influence the market going forward.

The 10-year treasury started the year at 2.12%, and by Feb. 2nd quickly dropped to a 12-month low of 1.68%. Unlike what can sometimes happen when rates drop quickly, this decline did not slow lenders who were eager to get a jump on their 2015 allocations. At mid-year, the 10-year treasury was at 2.33%. This was a slight increase from the beginning of the year, but a 38% increase from the 12-month low. With expectations of a FED rate move prior to year-end, the market remains primed for borrowers looking to lock in favorable long-term rates now.

The biggest news in the commercial and multifamily mortgage market during the first half of 2015 was what happened to the GSEs. Fannie Mae and Freddie Mac each started 2015 with a $30 billion cap for multifamily originations. Efforts to manage their respective caps in 2014 created huge overhangs into 2015. According to the MBA, first quarter GSE originations were 306% higher than in the first quarter of 2014. Through May, Fannie Mae originated $20.5 billion, or 68% of their cap, compared to just $6 billion through May of 2014. Relief was provided by new rules allowing for portions of their volumes to qualify for exclusion from the cap. Both Fannie Mae and Freddie Mac each project to originate just over $40 billion in multifamily mortgages with approximately 30% of their volumes "uncapped." While they are still generally competing for the same business as before, their focus has shifted to be more aggressive towards opportunities which can qualify for exclusion from the cap.While all non-GSE lenders were eager to fill the void created by the retraction of the agencies, none likely benefited more than commercial banks. Much of the discussion regarding Basel III has been related to the potential impact on construction lending; however, Basel III's risked-based capital requirements also influence how banks view other types of commercial mortgages. Under Basel III, a "seasoned" multifamily loan qualifies for a reduced risked based capital allocation. Through the first quarter of 2015, the MBA reported that total commercial and multifamily mortgage debt outstanding for banks and thrifts increased by $18.9 billion. Of that total, multifamily mortgage debt increased by $8 billion, or 44% of the first quarter total. The regulatory landscape created by Basel III will likely keep banks and thrifts competing aggressively for quality multifamily mortgage opportunities.

Similar to the banking industry, life insurance companies have their own set of regulatory guidelines dictating their risked-based capital requirements as set by the National Association of Insurance Commissioners (NAIC). To qualify for the lowest risked based capital requirements, loans need underwrite with a debt service coverage ratio (DSCR) of 1.5x or higher based on 12 months of income and a standardized 25-year amortization schedule. Interestingly, there is no consideration for market location and no difference between office, retail, industrial or multifamily assets. Loan requests with conservative DSCRs will attract the most aggressive terms, while those that don't will either be ignored or met with higher rate premiums. In a similar fashion to the GSEs, many life companies were aggressive to start the year. Limited remaining allocations and the desire to minimize risk based capital requirements will keep life companies competing for the "A" product going forward.

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