The outlook for commercial real estate finance in New England continues to be strong - by Derek Coulombe

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2018 closed out as a very strong year for commercial real estate developers and investors partially fueled by continued low interest rates and ever-present demand. We enter 2019 amidst government tensions and political infighting with seemingly impending rising interest rates. That's the bad news. The good news is that New England has an unprecedented demand for most asset classes including industrial properties and flex properties, especially inside of I-495. Multifamily demand hasn't subsided even though some may believe that time may be needed to absorb some of the new units that came online recently. Even with the new delivery of units, vacancies are still lower than the standard underwriting and collection loss provision. With the United States near full employment, office vacancies are incredibly low while cranes are scattered throughout the Seaport and throughout New England.

The #1 source for commercial real estate financing in New England has been and will continue to be commercial banks. The banks provide well priced capital on both a recourse and non-recourse basis for the right assets. During 2018 rates crept upwards but appear to have leveled off for the short-term. It is expected that rates will begin to rise again during 2019 but exactly when is not known.

Insurance company lenders did not make up much ground in 2018 and are hoping to add real estate exposure in New England on their balance sheets. For borrowers with strong properties in good locations looking for slightly lower leverage, life insurance company financing should be a good execution in 2019. Treasuries have moved up and down in the fourth quarter, but spreads have stayed fairly tight with loan terms as short as five years and go out to 20 or even 30 years.

Of course, the agency lenders have an insatiable appetite for providing non-recourse financing for multifamily properties and are unaffected by the government shutdown, with the exception of HUD. The agencies come out with new programs frequently to offer differing levels of incentives which offset some of the interest rate rise that occurred towards the end of the year; some examples are transit oriented, improvements to decrease energy consumption, affordable etc. Traditionally the 10-year loan term is most competitive and periods of interest only is still readily available.

CMBS lenders haven’t had much of a presence in New England over the past few years and are still trying to increase their presence throughout New England. Underwritten debt yields and debt service coverage requirements have constrained the loan proceeds in metro Boston so look for higher leverage further out with B or C quality properties. Although spreads are tighter than they have been in the recent past, it looks like something is going to have to change for them to become a larger player here.

Bridge, preferred equity and mezzanine lenders are growing by the day. The demand for commercial real estate exposure from large institutional investors have seeded an increasing number of bridge and mezzanine lenders. The product offered, short- term flexible, higher priced, higher leverage loans are not in high demand but for the opportunistic investor the options are growing out there.

In summary the outlook for commercial real estate finance in New England continues to be strong. The New England economy has been buoyed by education, healthcare and innovation. The barriers to entry for commercial real estate development have lightened some but there is still much greater demand than supply across the board and with that the lending community is still out in full force.

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