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Things are getting better in the capital markets and interest rates are coming down

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The annual MBA-CREF Conference was held earlier this month. This annual lending conference is primarily attended by major national commercial real estate lenders, mortgage bankers and servicers. NorthMarq meets continually with lenders over a four-day period. In addition, we also hosted a reception and had 250 lender and industry representatives join us. We came away with a good understanding of what the lending market will be for 2010.

Findings:

Generally the convention can be summed up as follows: "Less Negative is the New Positive"

Things are getting better in the capital markets and interest rates are coming down: Specific capital providers are outlined below:

Life Companies

Life Companies - almost all are back in the market. Some large companies reported to have allocations exceeding \$1 billion for 2010 but most are in the \$250 million to \$750 million range. They have cash to invest for the right deals largely because corporate bond yields have tightened dramatically over the past 12 months and they desire to have the good relative yield from mortgages. As a result, rates have dropped from 7.50% to 8% a year ago to generally 6.25% - 6.75% today. Look for a few life companies to go down to 5.75% - 6.0% for lower leverage Class A opportunities with quick amortization (20 years and less).

REO - Life companies generally report to have only a handful of nonperforming loans. However, they do acknowledge that that number is anticipated to increase throughout 2010. Despite this fact, they see the current market as a good one to be lending in given the recent decompression in cap rates and the decline in values below replacement cost.

Agency Lenders/FHA/HUD

Freddie Mac and Fannie Mae - They continue to dominate the landscape for fixed rate and floating rate multifamily loans. For now we don't see any other competitors stepping up to challenge them. Fixed rates for 10-year terms remain in the 5.50-5.75% range. Depending on the agency's perspective on any given market leverage remains 65% - 80% loan to purchase price. The only potential downside facing borrowers that utilize this financing vehicle is the government's recent announcement to follow through and end their purchase program of mortgage backed securities.

FHA/HUD - This platform has been vital to many developers unable to pay off their high leverage construction loans, however, the view on the street is that this financing vehicle is going to tighten up. A recent memo from the MBA included the following quote "During a meeting today with representatives of more than ten industry trade groups, deputy assistant secretary for multifamily housing Carol Galante stated that HUD will be making changes to the multifamily programs based on the need to "target and tighten" the department's multifamily activities." Look for a possible 1.20X

DCR verses 1.17X and carve-outs as well.

Equity/High Leverage Debt (Life Companies/Opportunity Funds/Hedge Funds)

Some life companies are talking about equity again. We would describe their perspective as tire kicking at this point. Looking for IRRs in the 11% range and long term holding periods of say 5+ years. They want a strong sponsor and in many cases will pick one in each market for each property type they're looking to invest in.

Hedge Funds - looking for opportunities. They are seeking IRRs in the 15%+ range for their high leverage debt (80-85% range). They will structure their equity as a participating mortgage and go up to 85% of the equity in the deal. For their equity they're looking to be in the low 20s on rate. To be considered competitive the hedge funds will chase empty buildings, discounted note purchases and development deals with tenant in tow.

CMBS - Although not like the good ole days of 10 years interest only - CMBS lenders have announced new platforms and have begun issuing terms sheets.

Goldman Sachs, JP Morgan and a few others are now actively seeking to pool loans for securitization. They have taken the temperature of bond investors and believe a market exists to begin securitizing one off mortgages again.

In summary, the conference was relatively upbeat. It's been a tough three years since the initial memo came out from Moody's in the spring of 2007 announcing scrutiny of CMBS. However, I am cautiously optimistic that the trend is upward although the pace will be choppy.

Ernest DesRocheers is managing director of the New York metro office and James DuMars is managing director of the Phoenix regional office of NorthMarq.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540