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Lenders are optimistic that the improving upward trend of 2010 will continue in 2011

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The MBA-Commercial Real Estate Finance Conference was held in San Diego, Calif. last month. The MBA-CREF is an industry wide event held annually in early February where mortgage and equity finance executives and the mortgage banking community meet to discuss lending programs for the coming year. Representatives from 25 CMBS platforms, 50 life insurance companies, agencies, FHA and various bridge, mezzanine lenders and hedge funds attended. NorthMarq held private meetings in our two suites on the half hour with lenders at the conference. Our attendees also attended numerous lender presentations, receptions, and parties. We also hosted our own cocktail reception for 150 lender representatives. The overwhelming message was "we have money, lots of it and we want to get it out".

Nearly every life insurance company reported an increased allocation for real estate mortgages for 2011. With all the talk of increased allocations, it seems as though the credit crisis is fading into memory as lenders speak of anticipating extreme competition this year to get their money out. Several of our colleagues call it the "new amnesia"!

Sentiment

The conference was full of smiling faces with several life company lenders seeking trophy deals and offering a 150 spread to capture them. Because of renewed competition on the immediate horizon, other life company lenders spoke of creativity, smaller loans, flexible prepayment, etc. in order to obtain higher spreads. One lender spoke about how they dropped their spreads 25 basis points while at the conference. The gist: Everyone accumulated cash for 2 years and now they need to put that cash to work. After three years of doldrums, we believe the momentum for new loans is real and we will see a much more competitive lending environment in 2011. Don't expect lenders to go back to the market peak behaviors anytime soon but we suspect that by 2012 competition will eventually lead to marginally higher loan to values, creativity, and an enlarging of the "box" lenders use to pursue opportunities. For now, expect a pragmatic environment where lenders will do their best to get their hands around a deal and see if they can make it work within their lending programs. Lenders are running lean on personnel so they will rely more than ever on their correspondents for upfront due diligence and analysis of deals. As a correspondent our business is to provide our lenders with quality transactions supported by professional presentations. Gone are the days of two page broker packages and few questions.

Lender Feedback

CMBS is back but now known as 2.0 as the programs have been changed to restore confidence in the product. 25 platforms old and new are looking for loans. When applying for a conduit loan a borrower should consider the platform that is backed by a large low-cost balance sheet and go with a mortgage banker that delivers volume to the platform. These groups are looking to reestablish

credibility and have assigned underwriting teams to NorthMarq since we can deliver them consistent loan volume. Be realistic; this is CMBS 2.0. Expect springing or soft lockboxes, reserves, carve-outs, bankruptcy remote entities, etc. Loans from CMBS lenders are generally \$5 million and greater with interest rates in a range of 5.75% - 6.75% (10-year term) and loan to value ratios of 70% and higher. CMBS platforms will consider all property types including manufactured housing and hospitality properties.

Life Companies - Some are talking low rate for trophy assets while others are speaking of higher leverage, smaller loan size and listening to the story and in some cases offering structure. All seem to acknowledge their peers, as well as CMBS platforms, are going to be major competition for them in the very near future. Interest rates are generally 5.25% - 6.35% (10-year term) with LTV ratios of up to 65% and sometimes 70%. Reduced pricing is available for lower leveraged deals and multifamily properties. Life companies will generally lend on the major property types only with few, if any, considering hospitality.

Agencies (Freddie & Fannie) - These two organizations originated over \$30 billion in multifamily loans last year. Barring meaningful reform, they will continue to dominate the multifamily lending landscape. Though life companies are becoming more and more aggressive in this sector, the agencies still have an advantage in terms of cost of funds and liquidity. Interest rates are generally between 5.20% - 6.10% (10-year term) with LTV ratios up to 80%.

Mezzanine Lenders - These groups will offer gap money to fill in the shortfall between a new first mortgage loan and what a borrower needs to pay either off his existing debt or acquire a new property. These groups will lend up to 80%-85% of value with interest rates in the 10-15% range. Even a couple life companies mentioned mezzanine or B notes behind their first as a way to capture business.

Hedge/Opportunity Funds - The groups are seeking experienced sponsors to partner with on new or turn around transactions. Expect a 90/10 equity ratio with the fund expecting to double their initial investment in 5 years. Most want cash flowing assets with upside to over a 20% yield. The minimum investment of these groups is generally \$5MM to \$10MM.

Bridge Lenders - These lenders are actively seeking opportunities to place loans on distressed assets. Loan sizes are generally \$10MM and up. Some will finance vacant buildings. Leverage is in the 55%-65% range depending on occupancy. Most of their focus is on core locations and Class A assets. These are nonrecourse loans. Rates are in the mid 6% range to 7.25% range with terms of 2-3 years, interest only. They will also offering additional funding for good news (leasing).

Interest Rates

U.S. Treasury rates were rising during the conference though they backed off some this week. Lenders made it clear they have room in their spreads to compensate for this increase. After all, historical mortgage spreads are closer to 150 bps so even if the U.S. Treasury yield went to 4.50% and spreads compressed to 150 for the run of the mill opportunity interest rates are still at 6%. Lenders at the conference did not have much anxiety about rising treasury yields. Today, spreads are in the 200 to 275 range for the average opportunity and drop as low as 150 for the low-leverage trophy opportunity.

Conclusion

In summary, the conference was relatively upbeat. We are the most optimistic that the recently improving upward trend of 2010 will continue in 2011 and beyond. 2011 will not be without its problems but so long as the economy continues to improve we expect 2011 will have some

excellent opportunities. As always, we would welcome the opportunity to discuss any capital needs you may have.

Ernest DesRochers is managing director of the New York Metro office and James DuMars is managing director of the Phoenix regional office of NorthMarq Capital.

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