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The market is uneven, making the value of experienced mortgage professionals important

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The last two years in the capital markets have been difficult and unlike anything I have seen since starting in the business in 1972.

For the past several years, every borrower must have felt as if they were swimming against a strong in-coming tide. There was capital available for "the right deals" in the right cities but there was a dearth of capital available for all other deals in secondary and tertiary cities. The "right deal" needed than historic leverage (50%-65% compared to 75%-80%) and was located in one of the top 25-30 metropolitan statistical areas (MSAs).

If your real estate needed higher leverage levels and/or was located in a smaller MSA, the capital challenge was Herculean. This year the tide is clearly turning but the market is uneven and the value of experienced mortgage professionals is high.

The very good news is that the 10-year treasury rate is hovering around 3%. You need to go back to 1950s before you find 10-year treasury consistently in this range. The current treasury rate puts commercial mortgage rates between 5.5% and 6.5% depending on location, leasing status and loan to value. In fact, for leverage in the 50% range, rates can be bargained down to the mid fours. There is also money available for deals in the smaller MSAs.

The life insurance industry offers the best execution for property located in a top MSA provided the real estate is leased without near term tenant roll over and loan to value can now approach 70%. The 17 life companies we represent as a correspondent at Q10 New England Realty, are all in the market and looking to increase volumes over 2010.

A constant theme is that the commercial mortgage offers "value" when compared to alternative vehicles such as corporate bonds and stocks. As long as corporate spreads remain compressed and mortgage spreads remain stable, this paradigm should hold for 2011. The industry offers attractive long term fixed rates, flexible prepayment and non-recourse financing. This is portfolio lending at its best and servicing is retained either in house or handled through a local correspondent. Should issues arise, the industry offers the best option for resolving them efficiently.

The resurgence of the Commercial Mortgage Backed Securities (CMBS) market will also be helpful to borrowers this year. If 75-80% leverage and 30 year amortization is a must for your real estate, there will be perhaps $50 billion of capital available from 25 different conduits that have re-emerged in this space. Some of these conduits will lock rate for up to 30 days. Prudence suggests that you should have all third parties done in advance of your rate lock and 2-3 years of solid operating history is a must. Be prepared to face escrows for tenant improvements and lease commissions should there be lease rollover prior to the term of the loan. One potential drawback for a borrower is that servicing will continue to be bid out at closing and as many CMBS borrowers have now realized, there is wide disparity among special servicing companies when issues arise.

Commercial banks are also back in the market and for existing clients, willing to offer guarantees, they offer a third alternative for your commercial real estate.

Competition for clients and deals has heated up in the banks and the competition is manifesting itself in compressed spreads.

So what could go wrong? The economy could fail to create enough jobs to stabilize employment but most economists are predicting 3 million news jobs for 2011 and if true, this will lift all real estate.

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