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Most lenders believe 2012 will provide excellent lending opportunities

April 19, 2012 - Connecticut

The lending industry wide MBA-Commercial Real Estate Finance (CREF) Conference was held in Atlanta, Ga. in early February. Representatives from CMBS platforms, life insurance companies, agencies, FHA and various bridge and mezzanine lenders all attended to showcase their lending programs for 2012. As has been our practice, NorthMarq held private meetings in our suites on the half-hour with the majority of capital sources who attended the conference. Our group also attended numerous lender presentations, receptions, and events.

Nearly every lender reported an increased allocation for real estate mortgages in 2012. The overwhelming message for new loan originations for this year was best put by one lender who said, "We know it's highly competitive out there and we hope that we have the tools to attract the best financing opportunities."

Sentiment

The conference was very upbeat in comparison to the recent past. Lenders are still cautious on where they lend; most were optimistic that the recently improving upward trend that began 2010 and took hold in 2011 will continue in 2012. So long as the economy continues to improve and no major unforeseen "climatic events" occur, lenders all believe 2012 will provide excellent lending opportunities.

Cash continues to accumulate on lenders balance sheets as the search for yield continues. We believe there is a much more competitive lending environment in 2012 than in past years. Don't expect lenders to go "back to the future" and repeat 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 continue to run lean on personnel so they will rely more than ever on their correspondents. As a correspondent our business is to provide our lenders with quality transactions supported by professional presentations and thoughtful underwriting analysis.

Lender Feedback

CMBS - CMBS lending continues to make its comeback after some $40 billion was transacted in 2011 in both agency and conduit environments. Some 25 platforms are looking for loans with deal sizes ranging from $5 million and greater with interest rates in a range of 5.00% - 5.75% and loan to value ratios of 70% and higher. CMBS platforms will consider all property types including manufactured housing and hospitality properties.

When applying for a conduit loan a borrower should be realistic; CMBS lenders expect springing or soft lockboxes, reserves, warm body carve-out guarantors, bankruptcy remote entities, etc.

Life Companies - Loan sizes for institutional grade general purpose real estate generally range from $3 million to $50 million for any one lender with LTV constraints of 75% LTV for multifamily, and 70% LTV for all other product types. Current rates are generally 3.5% to 4.75% with final pricing dependent on leverage, debt service coverage, debt yield, etc. Reduced pricing is available for lower leveraged deals and multifamily properties.

Loan terms are generally 5-10 years in length with 15/15 and 20/20 term readily available. Generally standard prepayment is yield maintenance with the last 3-6 months of the term at PAR. More and more life companies are offering some flexible prepayment options for a rate premium.

Agencies (Freddie & Fannie) - These two organizations originated over $44 billion in multifamily loans last year. Barring meaningful reform, they will continue to dominate the multifamily lending landscape. Though life companies have become more and more aggressive in this sector, the agencies still dominate this lending space simply by their sheer size and the size of the market. They also have an advantage in terms of cost of funds and liquidity. Interest rates are generally 50 basis points below life companies 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 8-12% range.

Bridge Lenders - These lenders are actively seeking opportunities to place loans on distressed assets. Loan sizes are generally $10 million and up. Leverage is in the 65% - 75% 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 offer additional funding for good news (leasing).

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