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## **Borrowers should continue to enjoy favorable rates for 12-18 months, after that - caveat emptor**

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Last year proved to be a very good year to be in the market for commercial mortgage debt. Interest rates were at 35 to 40 year lows and we witnessed the continued resurgence of CMBS. Every sector of the debt markets saw increases in volume including GSE's, banks, life insurance companies and mortgage REITs. In addition mezzanine and bridge lenders appeared in quantity to provide capital for acquisitions and refinancing.

The negative press Fannie, Freddie and FHA have received about single family purchases has drowned out the good news in the multi-family arena. Multi-family owners are enjoying favored nation status among all lending sources with life companies and mortgage REITs successfully competing with the government sponsored agencies especially in lower leverage deals.

The life insurance industry had mortgage volume of \$45 billion with default rates nearly 0%. All sources are projecting increases for 2013. Volume for the GSEs in multi-family was as follows: Fannie over \$30 billion; Freddie over \$26 billion; FHA \$14.6 billion, a record. All three have seen volumes increase by close to 40% over 2011 and default rates remain low at around .2 of 1%.

Private issuance of CMBS reached \$48 billion with yield spreads tightening throughout the year which pushed rates for the best quality deals to the 3.5% to 4% range. This volume is up significantly from the \$33 billion closed in 2011. While the volume is encouraging, the market is still a far cry from the \$230 billion closed in 2007. The investor base has yet to return to those levels and thus individual issuances have remained around \$1 billion versus the \$2 billion to \$3 billion levels of the mid 2000's.

Perhaps the reason for this reluctance is the only modest improvement in CMBS delinquency rates 10.16% six months ago to 9.71% at year end. Another issue that remains unresolved for the market is the lack of a balanced approach in servicing the loans. There has been consolidation in the special servicing business and the current players are proving to be carnivores when it comes to working with borrowers. Unless the industry addresses the servicing side of the business, there will remain many good borrowers that will refuse to go there.

There is discussion about where rates will go next year and the consensus is probably nowhere. The Federal Reserve intends to continue buying \$85 billion of mortgages and treasury bills per month during 2013 and Ben Bernanke has been clear that rates will stay where they are until inflation rears its head. Since there is no indication or prediction of that occurring in the near term, borrowers should continue to enjoy favorable rates for at least 12 to 18 months. After that timeframe though, "caveat emptor."

Some very smart people think the end may be near for these historically low rates. If you are an owner, investor or developer looking to borrow or the owner of maturing debt in the next two years, now is the time to finance. Bill Gross of PIMCO fame and the John Silvia of Wells Fargo are

expressing concern about current government policy.

Gross wrote, "The future price tag of printing \$6 trillion worth of checks comes in the form of inflation and devaluation of currencies either relative to each other, or to commodities in less limitless supply such as oil or gold."

John Silvia, chief economist at Wells Fargo said, "For some time now, central government spending has been growing rapidly and federal government debt has risen to levels not previously experienced. Several temporary budget control programs have been put in place, but each of these programs were half-measures, and yet continued overspending on public projects and wars have left the government finances in desperate condition. Easy monetary policy has also been put into place. Unfortunately, economic growth remains disappointing and the budget/debt problems continue to grow worse with little prospect of getting spending under control. Such was the environment for the entry of John Law, the rapid depreciation of the French currency, roaring inflation, the boom/bust of the Mississippi Co. and, inevitably, the French Revolution."

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