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Real estate finance in Northern New England - An abundance of capital

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At the conclusion of the Mortgage Banking Association's (MBA) annual conference this month in San Diego, it was very evident that the underlying theme was the abundance of capital for commercial and multifamily real estate. Most lenders have larger allocations of capital than last year which will create a very competitive financing environment for 2013. The MBA predicts an 11% increase in lending from 2012 to \$254 billion in 2013. Increased capital allocations in the market is very timely as nearly \$119.5B or 8% of all commercial and multifamily mortgages held by non-bank and investors will mature in this year. Interest rates are still at historic lows with spreads continuing to compress dictating rates in the 3-4% range. With this abundance of capital in the market and low interest rates, maturing loans should be readily financeable this year.

Life insurance companies have much larger allocations than last year and continue to offer very strong 10, 15 and even 20-year fixed rates. Loan to values are trending back to 75% and the benefits of rate lock at application, non-recourse and long term fixed rates make this a very good option with the general opinion that rates will be going up in the next several years. Over the last several years, most life companies have retreated to primary markets like Boston, but there is a renewed interest in lending at the airport hubs in northern New England including Portland, Manchester and Burlington. I do anticipate that as the competition for lending grows, life companies will expand back into the secondary and tertiary markets.

With the banks it seems that no news is good news. Many of the banks have gotten the bad loans off the books and they are no longer a drag on banks performance. Banks have been the gorilla in the market the last several years, and while tighter guidelines have restricted lending parameters, the commercial banks have been underwriting 80% loans in the primary markets and the smaller regional and local banks and credit unions have been very aggressive in the smaller northern New England markets.

With multifamily replacing office buildings as the top investment sector in more than a decade, there is a growing demand for providers of debt capital to fill the need. While Fannie Mae, Freddie Mac and FHA continue to dominate lending for multifamily properties, more life insurers and banks are increasing their allocations for multifamily loans. Fannie and Freddie's core program of 80% leverage and 10-year fixed rates will keep the agencies on top in terms of volume and the forecast for 2013 volume is over \$100B.

The commercial mortgage backed securities (CMBS) market is back with \$43B in loans completed in 2012 and \$90B anticipated for 2013. CMBS is filling a much needed void for non-recourse, ten year commercial capital in the secondary and tertiary market where life insurance companies have not re-entered the market. Much of the increase in originations for CMBS is filling the void for leverage on hotel and office product.

Other forms of capital including bridge, mezzanine and preferred equity have also increased their allocations for 2013. The overriding concern should be a return to pre-recession lending where the intense competition for loans led to irrational behavior and excessive lending. However the good news is that all of this capital in the market should produce is a very competitive environment and increases the opportunities for borrowers in 2013!

Edward Riekstins is senior vice president of Northmarq Capital, Boston, Mass.

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