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The National 2013 MBA CREF Conference: "Face Time Starts Now"

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The National 2013 MBA CREF Conference was held this year in San Diego. With over 2,500 commercial and multifamily real estate finance professionals gathered together, the "Face Time Starts Now" theme was fitting. The mood this year was very positive; in fact, it was the most upbeat it has been in several years. One participant described it to me as 2007 all over again, referring to the last great year of euphoria before the dark clouds of the financial meltdown began to gather.

The general consensus among lenders was that 2012 was a great year with most meeting or exceeding production goals. According to MBA's commercial/multifamily mortgage bankers originations index, 2012 originations were 24% higher than 2011 with the majority of that growth occurring in the 4th quarter 2012. By lender type, CMBS volume increased by 228%, commercial bank volume was up by 68%, GSE volume was up by 51% and life insurance companies had an 18% increase in the volume of loans originated. CMBS closed the year with an estimated $50 billion in originations for 2012. Estimates for 2013 production from this market segment are between $75 and $100 billion for 2013 indicating a 50% to 100% increase in volume. There is already $19 billion in the pipeline.

Every life insurance company we spoke with projected volume increases and increased allocations to accommodate not only new originations, but also portfolio loan maturities that they want to retain.

This year's takeaways:

Product Expansion: In addition to the four basic property types (office, retail, multifamily and industrial), look for the "strike zone to expand" as lenders look to get more yield. The more diverse product types will include self-storage, mobile home parks and parking garages. Multifamily is still the most sought after property type, but hotels are reemerging on a selective basis, especially among CMBS lenders. Lenders are expected to expand their presence in secondary markets and increase leverage selectively.

Underwriting: Cash flow analysis will mirror 2012. Lenders won't push limits like they did in 2006 and 2007. Borrowers will continue to be put under the microscope.

Leverage: Loan-to-value ratios are expected to see moderate increases as lenders try to compete. Ideally, life companies like to be under 70% loan-to-value while conduits are edging closer to 75%. Best pricing and amortization is available for loans under 65%, continuing emphasis for well margined loans.

Pricing: Pricing generally starts in the low 3% range for 3-5 year loans and increases to around 4% for 10-year deals of $5 million and over. Spreads have decreased dramatically since the fall 2012. Quality borrowers now have opportunities never seen before, provided they are financially strong.

Mezzanine and Preferred Equity: Lenders in this space will push leverage to 85% with sufficient cash flow. Figure high single-digit to low double-digit pricing. Some institutional lenders are now quoting mezzanine behind their own conduit loans and on construction loans. Some will consider an equity investment if the deal is strong.

Construction: Lending in this category has expanded selectively beyond apartments. Strong pre-leasing is a must. Loans will be limited to best in class locations with strong underlying demographics.

Bridge Lenders/Funds: Non-recourse loans with rates declining from previous 10% plus levels. Money is becoming available for deals greater than $5 million where in the past there was no money available for anything under $15 million.

Banks: In many respects banks have replaced life companies in the $1 million to $10 million lending space. Consolidation in this sector is expected to continue with increased competition for good transactions and maintaining and expanding customer relationships. Expect some sort of repayment guarantee.

Equity: There are ample funds for value-add and ground-up, but not the manpower to manage the increasing volume resulting in a larger is better mentality with $5 million components being the exception to the $8 million to $10 million minimum.

Most lenders indicated they are raising production goals for 2013 to take advantage of recovering markets and improving fundamentals. Lenders will be challenged by finding transactions that meet their underwriting criteria. They're getting creative to compete for the choicest deals while interest rates remain low and loan-to-value ratios increase.

It's a good year to be a borrower.

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