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2014 commercial real estate finance outlook: Higher rates to continue, levels remain attractive

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What does 2014 hold for the commercial and multifamily real estate finance markets? For years, those of us in real estate finance have been expecting rates to move higher. The truth is they already have. Both the 5 and 10 year treasuries bottomed on July 23, 2012 when 5 year dipped to 0.55% and the 10 year was at 1.40%. Since then, the 5 year rate has moved over 100 basis points and the 10 year over 140 basis points. With the Federal Reserve announcing plans to taper its monthly purchase of mortgage backed securities and treasuries by $5 billion beginning this month, the trend in higher rates is likely to continue.

While the rise in rates has been steady, overall levels remain attractive and near 50 year lows. The last time rates were at these levels was the mid 1950s. In terms of availability of capital, 2014 should be attractive. Plenty of debt capital will be available from the GSE's, banks and thrifts, life companies and CMBS. In addition REITs have entered the debt markets. Mezzanine and bridge money is also available to take leverage as high as 85% of value.

Construction loans are available on a speculative basis only for multifamily and then only with significant equity and guarantees. All other property types require pre-leasing.

Total commercial/multifamily debt outstanding stood at $2.47 trillion in the third quarter. Multifamily mortgage debt outstanding rose to $887 billion, up $10.8 billion, or 1.2 percent from the second quarter.

The prediction for 2014 is interest rates will remain near historic lows but with a gradual upward pressure as the Fed tapers. Owners will still be required to commit their own cash to deals. Refinancing will remain capped at 75% (80% for multifamily) with preferred rates and structure for those in the 50% range.

CMBS 301 continues to grow with volume up nearly 100% from 2012 levels to $80 billion in 2013 and projections for continued growth in 2014. CMBS delinquency levels continue declining with Trepp Wire reporting a 7.98% 30-day rate in October.

Banks and thrifts increased their holdings of commercial/multifamily debt to $867 billion in the third quarter of 2013 from $855 billion one year prior and are expected to continue lending in 2014.

Life companies likewise increased holdings to $333 billion in the third quarter of 2013 from $326 billion one year prior and project a 5% increase in 2014.

Fannie, Freddie and FHA will continue to be important multifamily lenders in 2014 having closed over $75 billion in 2013. Fannie and Freddie may be mandated to further reduce volume by 10% or $5 billion in 2014 but will remain active in secondary and tertiary markets.

The bigger question is what will happen between 2015 and 2017 when over $400 billion of CMBS matures. Those deals were underwritten in a very different environment under much looser conditions. The smart money believes those maturities will have a difficult time refinancing without significant equity. There are equity, mezzanine and bridge players entering the market today with the thought of filling that gap.

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