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Let the good times continue! The mortgage finance industry is positive right now

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The National 2014 MBA CREF Conference was held last month in Orlando Florida. The meeting theme for this year was "Where Market Makers Meet." Over 2,800 commercial and multifamily real estate finance professionals attended the convention which was an increase in attendance of over 10% from the 2013 meeting.

The mortgage finance industry is cyclical and the cycle is pretty positive right now. After the trough in 2009, the mood has improved every year since for multifamily and commercial lending and 2013 was no different. The outlook this year was very positive; in fact it was the most upbeat since 2007 the last great year of euphoria before the dark clouds of the financial meltdown began to gather.

Commercial real estate finance industry participants all agree that 2013 was a great year with most meeting or exceeding production goals. According to MBA's commercial/multifamily mortgage bankers' originations index, 2013's commercial and multifamily mortgage origination volumes were 15% higher than originations during 2012. Increases were up across the board including a 22% increase for office loans, a 13% increase for multifamily loans, a 10% increase for hotel loans, and a 4% increase for retail properties. Surprisingly there was an 11% decrease for industrial loans.

Among investor types, 2013 versus 2012, loans for CMBS increased 33%, loans for commercial bank portfolios increased 32%, originations for life insurance companies increased 25% and loans for GSEs decreased 18%. Most lenders indicated they are cautiously raising production goals for 2014 to take advantage of recovering markets and improving fundamentals. The challenge for lenders will be to find transactions that will meet their strict underwriting criteria. Every life insurance company we spoke to has projected volume increases and increased allocations to be able to accommodate not only new originations, but also portfolio loan maturities that they want to retain.

Some of the take aways for this year include the following:

Product Expansion: In addition to the four basic property types of 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. Interestingly some life insurance companies are beginning to offer a mezzanine loan product as well as a CTL product. Multifamily is still a hot commodity. In addition, look for lenders to continue to expand their presence in strong secondary markets and to increase leverage selectively.

Underwriting: Cash flow analysis will mirror 2013. Lenders will not 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 less than 70% loan-to-value while conduits are edging ever so slowly to 75%. Best pricing and amortization is available for loans under 65%, continuing the market emphasis for well margined loans.

Pricing: Pricing generally starts in the mid to high 3% range for 3-5 year loans and increases to around 4.25-4.5% for 10-year deals of $5 million and over. Spreads have leveled off after having decreased in late 2012 through mid-2013. Quality borrowers 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 loans.

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 now in the 7-10% plus levels. Money has become available for deals greater than $3 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 so larger is better with $5 million components being the exception to the $8 million to $10 million minimum.

In summary, lending volumes are expected to increase across the board for all lenders and property types. Lenders are getting creative to compete while interest rates remain low. Loan-to-value ratios are expected to increase as lenders compete for the choicest deals. It's a good year to be a borrower.

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