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## **Capital is coming in many different forms and more players emerge on a regular basis - by Derek Coulombe**

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New England commercial real estate activity continued to be a strong performer in 2017 with office vacancies at a pre great recession low, new development continuing throughout the region from the continued transformation of the Seaport area of Boston to the waterfront developments in Portland, ME. Hotel development has been strong and the demand for industrial properties cannot be satiated, especially the last mile industrial properties that may have been too old or looked down upon before. New England's concentration of highly educated workers and the regions employment generators have continued to keep cap rates low and capital flowing from domestic and international investors.

2018 commences with a passage of new tax legislation, new records being set in the stock market and a fair amount of uncertainty and turmoil coming out of Washington. How this will all play out is anyone's guess but what we do know is that loans are plentiful in New England. Capital is coming in many different forms and more players emerge on a regular basis. Short term rates have risen in the past year but the yield curve has flattened out substantially making long term financing more attractive.

Regional and local banks are still competing aggressively for market share with a little less focus on new development. However the recent loosening of the HVCRE provisions of the Dodd Frank legislation coupled with tax reform could be a boost for local developers and investors. Appetite for real estate loans seem to differ among individual banks as portfolios grow in varying degrees and potential regulatory changes are looked at in different ways.

Insurance company lenders have traditionally had a difficult time gaining real estate exposure in New England and look for them to continue to put significant effort into building their loan portfolios here; likely from increasing loan to value or underwriting to more aggressive market based cap rates, which hasn't always been the case. For borrowers with strong properties in good locations looking for slightly lower leverage, life insurance company financing should be a good execution in 2018. Loan terms can be as short as five years and go out to 20 or even 30 years on occasion.

CMBS lenders are back and trying to increase their presence throughout New England. Underwritten debt yields and debt service coverage requirements have constrained the loan proceeds in metro Boston so look for higher leverage further out with B or C quality properties. Spreads have tightened substantially and quoted rates have made CMBS lenders an option worthy of consideration for the full leverage non-recourse borrower.

Bridge, preferred equity and mezzanine lenders are growing by the day. The demand for commercial real estate exposure from large institutional investors have seeded an increasing number of bridge and mezzanine lenders. The product offered, short term flexible, higher priced, higher leverage loans are not in high demand but for the opportunistic investor the options are growing out there.

The real estate financing outlook for New England in the coming year looks strong. We are long into this recovery and it will be interesting to watch as demand for commercial real estate continues to be very strong. The political environment is polarizing and concerning to the casual observer and as of yet we have not seen any evidence that this is affecting commercial real estate financing. We expect that unless there is a dramatic market disruption 2018 will be a robust year for commercial real estate financing.

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