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## 2021 Spring Review: Commercial Real Estate Finance - by Michael Chase

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What a difference a year makes! On March 10, 2020 the order was given to shut down all non-essential businesses in Massachusetts. As we approach fourteen months since that fateful day, vaccination roll outs have helped to provide a renewed sense of optimism.

### Interest Rates

A primary story line during the first quarter has been the rise of long-term treasury rates. Inflationary and supply side pressures are likely to keep influencing rates at the long end of the US treasury yield curve. The good news for borrowers is global capital remains interested in purchasing US debt. As of this writing, the 10-year German bond is trading at a negative yield, while the UK, France, Italy, Spain and Japan all have 10-year bonds trading from 80 to 150 basis points below 10-year US treasury.

While sovereign debt markets are helping to pump the breaks on rising US Treasuries, corporate bond markets are also helping to keep mortgage spreads tight. Yields on BBB and AA corporate bonds over the 10-year US Treasury are tighter than they were pre-COVID. As long as lenders have limited options for alternative investments, borrowers should continue to reap the benefits.

### Capital Sources

Capital for commercial real estate remains plentiful.

Commercial banks and thrifts have been able to emerge from processing a mountain of PPP loans and are more actively seeking commercial mortgages. The steepness of the yield curve is benefiting some short-term borrowers; however, those considering a SWAP should keep the upcoming LIBOR expiration in mind. While there has been an extension to the original date of December 31, 2021, LIBOR is still likely to expire during the term of a newly originated loan.

Insurance companies continue to evolve their product offerings as well. They are no longer just a

source for long-term, fixed-rate financing. More are now offering bridge, equity and construction financing options as they try to seek out more yield. Insurance companies are off to a strong start in 2021, so it may only be a few months before some have exhausted their allocations for the year.

The Agency Lenders - Fannie Mae, Freddie Mac and FHA - remain dominant players for multifamily financing, and they have begun softening their closing escrow requirements. Transactions which qualify for Affordable or Green programs can benefit from significant pricing breaks. These lenders continue to innovate and add new programs such as the new Sponsor Initiated Affordability (SIA) program from Fannie Mae. An experienced capital intermediary can add significant value by helping to navigate the myriad of available programs.

Since the end of 2020, there has been a growing “risk on” mentality amongst bridge lenders. Spreads in this space have compressed significantly to a point where floating rates under 4% are available for certain transactions.

New issuance of CMBS fell by 45% in 2020. As delinquency rates continue to decline, the CMBS and CLO markets have re-emerged in 2021.

Other topics influencing commercial real estate finance in 2021 include eviction moratoriums, court backlogs, tax law changes, building material costs, tax abatements, insurance, ASTM standards and much more. It is an exciting time to be in commercial real estate, and we’re all looking forward to the day when COVID-19 is truly behind us.

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