



# nerej

## **New England commercial banks continue to dominate the commercial real estate lending market - by Derek Coulombe**

January 28, 2022 - Spotlights



Derek Coulombe

In opposition to most prognostications, 2021 was a strong year for commercial real estate across all asset classes. As to be expected some property types did lag others, with multifamily, industrial and lab being the runaway winners but even retail, office and hospitality saw strong investments and renewed interest. Multifamily, industrial and lab were the clear runaway winners, but even those that lagged these leaders, such as retail, office, and hospitality, saw strong investments and renewed interest. Continued investment growth is expected for 2022. Many investors are flush with cash, and commercial real estate has become a favored asset class. Combined with a growing economy, this will fuel demand for more space, resulting in further cap rate pressure.

The Federal Reserve has made their position on rates quite clear and the looming interest rate hikes over the next six to eight quarters will certainly affect the underlying indexes lenders use to price debt. However, spreads will likely tighten, and the overall coupon will not move basis point by basis point.

New England's commercial banks continue to dominate the commercial real estate lending market. Bolstered by greater liquidity than ever banks are well positioned to continue originating new loans and becoming an even larger part of New England's financing scene. Banks are currently in flux about how to price long-term financing as they move away from LIBOR but have not yet gained traction with SOFR. As a result, lenders are increasingly quoting coupons. While this would normally push lenders towards more 5- and 7-year offerings, such a shift hasn't yet occurred.

The agencies -- Fannie Mae, Freddie Mac, and FHA -- had a very strong year in 2021 and were even over-worked at times, leading to a slowdown in processing times resulting in a significant backlog. This logjam has started to clear, and processing times have normalized. COVID specific underwriting, i.e., reserves and stress underwriting, has gone away. 2022 should be a very strong year for the agencies.

Life insurance companies are a bit more cautious in underwriting office and retail than they were pre pandemic but are really looking to grow their book of business in the Northeast. Lab, industrial and multifamily in strong locations will benefit from highly attractive long-term rates from the life insurance companies. Traditionally more modest leverage lenders, life insurance companies are now willing to stretch on proceeds to win the right deals.

Among Wall Street lenders, CMBS continue to get more aggressive to try to originate more loans, going so far as now offering full-term-interest-only notes on a regular basis. Rates continue to be a bit higher than other sources, however, CMBS will likely be the lenders that reduce their spreads as the indices increase, making them a more viable option in 2022.

Alternative lenders continue to pop up to fill the financing gap, whether it be from the lack of debt service coverage on these very low cap rate deals, or transitional assets that are being repositioned by investors to unlock trapped value. These bridge / mezzanine lenders have reduced their coupons and are becoming a more attractive option for many investors that may have a short

investment horizon and are worth paying attention to.

Derek Coulombe is a senior managing director at Fantini & Gorga, Boston, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540