Across the U.S., commercial real estate financing opportunities are abound as rates head lower - by Eli Weisblum and Remi Mandell

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The U.S. economy is in its 10th year of expansion, the longest in history, but its pace has decelerated in recent months due to slowing global growth and the impact of tariffs. For the Federal Reserve, these developments have been a bane, but they are a boon for commercial real estate financing across the country as it has coincided with a dramatic drop in interest rates.

Commercial borrowers can significantly benefit from lower interest rates at this point in time. With rates trending downwards, borrowers can net more in proceeds than they were before. As U.S. stocks soared to historic highs recently, the yield on safe-haven 10-year Treasuries – which influences everything from mortgage rates and small business loans to state/government bonds and corporate loans – plunged in tandem. As of late-July, the 10-year yield stood at about 2.05%, around 120 basis points below a seven-year high hit last October and approximately 75 basis points below 2019's peak. As of July, interest rates on ten-year multifamily loans are roughly 50-75 basis points lower than they were a year ago.

Uncertainty ahead of the sweeping changes to New York's rent regulation laws in mid-June profoundly impacted the city's multifamily property market this year. From January through June, New York City saw $3.39 billion of sales and 169 transactions, representing declines of 34% and 27%, respectively, compared to the first half of 2018. On a year-over-year basis, sales volume stood at its lowest since 2011, according to our company's "Multifamily Mid-Year In Review."

Right now, investors shouldn't worry about real estate financing as they can handily navigate the new waters by shifting to more long-term debt capital. By obtaining longer term financing, borrowers can take advantage of rates being at one of the lowest points in the cycle.

Today, the most efficient debt capital can be found in 7- or 10-year terms, coupled with interest-only periods. Financing in NYC has typically been capped consistently between 65% and 75% loan to value due to cap rates being as low as 3%, with the only sub-market obtaining 80% financing being the Bronx. As multifamily cap rates continue to compress, however, borrowers will be able to achieve higher leverage in the other boroughs as well, allowing their money to go further. Our company has long-standing relationships with regional and national lenders who are routinely underwriting higher leverage loans with longer interest-only periods than their competition.

Out-of-State State of Mind

In addition to lowering rates, lenders are finding other ways to stay competitive, with some simply narrowing the spreads on which they lend money. However, lenders and borrowers alike are starting to look at areas outside of New York. Many private lenders have actively been looking to expand their footprint beyond the local metropolitan area to other major cities. Borrowers, meanwhile, are looking at other markets and non-multifamily asset classes due to the new rent regulation laws. For example, clients can opt to roll over their gains from a recent transaction in the form of a 1031 exchange and buy a small retail shopping center or a 50,000 s/f self-storage facility and avoid paying tax on capital gains.

Ariel Property Advisors is attuned to our client's interests and in conjunction with helping them navigate a complex real estate market, we have seamlessly assisted them in moving into secondary and tertiary markets for additional deal flow. Recently, we have financed acquisitions for retail and industrial properties as far south as Georgia, and west to Michigan, Missouri and Indiana.

Additionally, we have assisted clients in South Carolina, Utah and California looking into multifamily development projects.

Another example of creative structuring was finding an aggressive umbrella loan for a client who owned 23 assets across the country. Our team was able to deliver a holistic financing package for the client comprising of a non-recourse, fixed rate, 10-year loan with four years of interest only. We also negotiated two separate closings to accommodate for multiple ownership structures across the portfolio.

Nationwide, lenders are looking to place money on all asset types not just in primary markets, but in secondary and tertiary markets as well. If a retail strip has some large national clients or anchor tenants, lenders will find a way to structure a loan, even considering that the same property has a 20% in-place vacancy that needs to be addressed.

Lately, we have noticed a rise in institutional capital investment in capital markets, especially in regions that previously only saw interest from local banks. Institutional capital sees a greater opportunity to undercut the local market by getting more aggressive in terms of extended amortization periods, interest rates and terms.

The outlook for real estate financing is decisively bright. Whether it be nearby in the Bronx or as far away as California, interest rates are enticing no matter where you are in country. Right now, there are incredible opportunities for investors seeking strong risk-adjusted core/core plus returns for stable assets against the backdrop of a surplus of available capital.

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