nyrej

2008 Mortgage Banker's Conference pinpoints sources of real estate capital

March 17, 2008 - Financial Digest

Last month, the Mortgage Bankers Association held its annual Commercial Real Estate Conference in Orlando, Fla. Attended by commercial real estate lenders, mortgage bankers, agencies and mortgage brokers, the event represents the premier convention for those associated with this industry. This year's convention was noted for its lack of extravagance and a somber tone.

For years, the Mortgage Bankers Association Commercial Real Estate Conference has been highlighted by extravagant events including dinners, parties, concerts and giveaways as lenders and investors pulled all stops to convince the mortgage banking community to do business with them. This was not the case this year. Sub-prime mortgage credit woes, layoffs in the industry and strained allocations put this year's conference in a different frame of mind than previous years.

The slack in originations by the Commercial Mortgage Backed Security Market (CMBS) is being picked up by life insurance company lenders, credit companies, local, regional and national banks along with agency lenders such as Fannie Mae and Freddie Mac. Agency originations are purportedly up over 75% from 2007. Correspondents for these lenders were generally encouraged by what was heard at this year's conference. Although several lenders indicated they were downsizing allocations for 2008, many of NorthMarq Capital Inc.'s life insurance investors stated they were increasing allocations for the coming year. Several of our correspondents felt the time was right to invest in commercial real estate mortgages on their "own" terms, now that there is a lack of competitive pressure from CMBS lenders. These institutions are offering loans at higher spreads than they have been able to obtain in years and they are "cherry picking" the deals that fit their lending parameters.

Agency lenders such as Fannie Mae and Freddie Mac are picking up the demand created by the exit of the CMBS lenders for multifamily property types. Both of NorthMarq's agency lending groups are noting increased activity so far through 2008. Freddie Mac's volume for NorthMarq in 2007 exceeded $300 million and NorthMarq's Fannie Mae DUS subsidiary has increased its volume year to date as well. In addition, NorthMarq Capital's Marquette Realty Capital subsidiary is very active in the bridge loan lending market. Loan to costs in excess of 90% are possible using this credit company as an alternative to traditional bank financing products.

Pricing over the last few months has increased across the commercial real estate lending spectrum with benchmark apartment and multifamily spreads up over 100 basis points from last year. Underwriting standards have tightened, resulting in less loan proceeds being available on similar transactions when compared to 2007. Finally, time frames for transactions are taking longer as lenders still in the market are struggling to keep up with demand.

The question for real estate developers and investors is where will capital come from in 2008? Based on discussions with those in attendance at the conference, NorthMarq Capital, Inc. believes that capital will always be available for solid projects and borrowers. Though the market has lost the breadth and exuberance it had in 2007, money is still available. However, the money available in 2008 will be on terms substantially different than in 2007. No one is really sure how long this current climate will last in the commercial real estate financing market. This will make the Mortgage Bankers Association Commercial Real Estate Conference in San Diego scheduled for 2009 an interesting event to look forward to.

In summary, the realities of the commercial real estate financing market in 2008 reflect the realities of the current economic climate. Commercial real estate financing opportunities exist in this environment; they are just harder to find. Navigating through today's commercial real estate financing market requires solid deal fundamentals and strong sponsorship. NorthMarq Capital's lender platform is well positioned for the current commercial real estate financing marketplace â€” a marketplace which represents a return to basic underwriting techniques and standards.

Sam Berns is the managing director of NorthMarq Capital, Inc., Rochester, N.Y.