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Highlights from 2017 Commercial Mortgage Bankers Conference by Macikowski

April 04, 2017 - Upstate New York

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MBA 2017 Update

San Diego was the site of this year's Commercial Real Estate Mortgage Bankers Conference. Over 4,500 industry professionals representing mortgage bankers, commercial mortgage backed securities (CMBS) lenders, life insurance companies, agency lenders, banks, mezzanine, bridge lenders and preferred equity providers were in attendance. NorthMarq Capital met with more than 70 of these organizations during the three-day event. These groups will shape the commercial real estate market for the next year. As opposed to the conference in 2016, this year's tone was more optimistic with lenders looking to expend more capital than the previous year.

Overall Sentiment

Most lenders believe that the positive commercial real estate trends that began in 2010 will continue through 2017. Lenders were concerned with refinancing the wall of maturities from the loans placed in 2006 and 2007; however, to date the majority of the loans have paid off with no workouts.

As cash continues to accumulate on most lenders' balance sheets, they are actively searching for yield opportunities. With US Treasury rates remaining at historic lows, many of our lenders are using floor rates, including higher loan-to-values, creativity, a larger spectrum of loan opportunities and a greater number of loan products.

Lender Feedback

Agency lenders: Last year, NorthMarq Capital continued to rank highly with loans nationally with both Freddie Mac and Fannie Mae. Together these agencies again led the marketplace for multifamily loans. These low cost, multifamily debt providers continue to be about 25-50 bps less than most lenders on higher advantage transactions. There has been some leeway with the loan-to-values for refinances, with cash out now available up to 80% on a per exception/waiver basis. Agencies will continue to be more aggressive on very low income housing and affordable housing opportunities. New for the agencies this year will be modified rehab, value-add, and green programs.

CMBS: CMBS lending has once again weeded out the little shops with new risk retention regulations. Fifteen CMBS lenders have left the market because of both risk retention and lower volumes. CMBS issuers will have to retain a 5%-7.5% slice of every new deal they issue, or designate a B-piece buyer to take on that risk. The first pool meeting the new risk retention regulations occurred at the end of 2016. The pool was set up as a vertical risk retention, which requires them to retain their slice for a set number of years without hedging or transferring the credit risk. In this pool, we found that the spreads were the tightest they have been since 2015. Other structural strategies that are risk retention compliant would include a "first loss" horizontal option and an “L-shaped” arrangement, which is a combination of the vertical and horizontal structures. We have taken the position that if CMBS is the only execution available for your transaction, then it is prudent to stick with CMBS lenders who have large balance sheets supporting them.

Life companies: Loan sizes range from $2 million up to $50 million for most institutional grade properties. Basic product types of apartments, retail, office and industrial continue to be what most life companies are seeking. Most life companies’ loan-to-values will max out at 75% for multifamily and 70% for other property types. However, NorthMarq saw several life insurance companies approaching 75% loan-to-values for property types other than multi-family in 2016. Loan terms of 5-20 years with 15/15 or 20/20 self-amortizing loans will be available in 2017. Several life companies are becoming more flexible with pre-payment penalties moving from yield maintenance to declining balance. With US Treasury remaining at historical lows, several life insurance companies are using floor rates in the 4 percent range.

Mezzanine & bridge lenders: Mezzanine lenders and preferred equity groups continue to fill the loan-to-value gap in the shortfall created by the aggressive lending earlier in the decade. Average interest rates are in the 8%-12% range, allowing loan-to-values to approach the 80%-85% range. Bridge lenders continue to seek turnaround/distressed assets in the $5 million and up range. Depending on in-place cash flows, loan to values will be in the 65%-70% range. These non-recourse loans are totally driven by the markets the properties are located in and sponsor experience. Most loans are interest only for a two-to-three year period.

In summary, expect the 2017 lending environment to be consistent with last year. Most lenders are looking to maintain last year’s production levels.

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