



## **Commercial Real Estate Guide: 2021 Commercial Real Estate Lending Update: NorthMarq**

July 20, 2021 - Spotlights

Ernest DesRochers

Peter Drucker once said, “The greatest danger in times of turbulence is not the turbulence—it is to act with yesterday’s logic.” When it comes to the current state of the commercial real estate market in the northeast, the turbulence of the past 18 months caused by the COVID-19 Pandemic is beginning to settle down. The market sentiment for commercial real estate investing is improving but lenders are cautious due to what many believe are structural changes in demand for many product types.

The sector that has been hardest hit is retail, as most properties in this category have been severely affected by COVID-related tenant closures and rapidly-changing sales channels. In contrast, single tenant credit retail is readily financeable because these properties have long-term credit leases where risk of tenant default is considered low. All lenders ask questions relating to tenant payment histories during COVID.

The industrial market is the strongest it has been in a generation. Demand in that sector is driven by logistic tenants who have leased space at unprecedented rates due to the rapid growth of on-line retail sales. We have financed several properties that retail and single tenant industrial conversions that were fully leased prior to completion.

The office sector is improving especially in the suburbs as physical occupancy is slowly improving. Industry observers state that suburban occupancy is well over 50%. CBD occupancy such as NYC is less than 25%. Though companies are slowly going back to work Labor Day is when most have indicated their employees should report to work. Even then many firms will be on a hybrid model basis, which could mean a decreased demand for space. For example, sublease space in NYC and some close in NJ suburbs are at an all-time high. Our experience with our lender base indicates that lower leveraged (less than 60%) loans with manageable rollover can get financed with relative ease.

The multifamily market continues to remain strong, especially in the suburbs. Vacancy rates have decreased, and rental rates have increased over the past 18 months as tenants have moved from NYC to the suburbs. This demographic shift was going to happen anyway as millennials formed new households, but that shift accelerated due to COVID. Recent sales of suburban apartment

developments at record prices supports this shift. The lending community views this product as a haven for low risk lending.

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of \$16 billion, loan servicing portfolio of more than \$65 billion and the multi-year tenure of our more than 600 people.

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