MARKET NEWS
YOUR QUARTERLY CAPITAL MARKETS UPDATE FOR 1Q|2015

NORTHMARQ CAPITAL

FEATURED ARTICLE

100% OF ECONOMISTS WERE WRONG

By Jeffrey Weidell, President

The title of an article published on *Marketwatch* last fall repeated the predictions of 67 economists who were surveyed in April. When the 10-year Treasury was 2.73%, ALL economists predicted a rise in this benchmark Treasury. The question was only how quickly it would rise to 4%! That made 100% of them wrong—way wrong. The Treasury fell toward 2% and is currently below 2%. Accordingly, there is no way NorthMarq will hazard a rate prediction for 2015; we no doubt would be wrong too.

Rising rates were a concern one year ago. The other major concern noted in the article was the fate of the Agencies (Freddie Mac and Fannie Mae). Their volume had been reduced by 10% in 2013, and it was implied that another 10% reduction would hit in 2014, limiting a key source of capital to the healthy multifamily market. First-quarter agency results in 2014 were abysmal, as uncertainty prevailed. However, the good news came that the "caps" were lifted, and the combination of low rates and active multifamily markets created tremendous agency activity during the rest of 2014. Thus two worries—rising rates and agency woes—were overcome.

The result of all this was an excellent financing year overall in 2014 and a record year of production for NorthMarq. We closed $13 billion in new origination, led by our stable life companies, then by Freddie Mac and Fannie Mae, followed by banks and then CMBS. Banks were a surprising No. 3 on the list (typically CMBS would be ahead), offering not only by on-book, longer-term loans, but by a significant volume of construction loans we placed, primarily for apartments and with limited recourse.

For 2015 we see continued strong money supply from the life companies and consistency from the agencies. The talk today from direct (life company) lenders revolves around floors, as a 160-basis-point (bps) spread over the 10-year Treasury was a fine "market deal" for them when the Treasury was 2.25% (thus a 3.85% rate), but with sub-2% Treasuries and thus 3.5% long term rates, lenders are assessing how "low" they can go and still remain profitable under their business plans.

The agencies are naturally focused specifically on multifamily and have maintained spreads in a relatively consistent range throughout the year—say 175 bps on average—and continue to be able to produce the strongest loan amounts at low rates, particularly for new acquisitions with cash infusions. This should continue as long as their read on markets is healthy in terms of stable occupancy and rising rents, and they don't quickly hit their lending volume caps in 2015

The CMBS market had its strongest year since the crash with more than $90 billion originated and generally declining spreads through the course of the year. This continues to be a great source for stabilized properties of all types, particularly those with consistent cash flow, and lenders are staffed to make deals. Whether there is really any change from CMBS 1.0 to 2.0 or proposed 3.0 is pretty hard to tell from the borrower experience, but there is definitely better knowledge with all parties in that business about what can, and really can't, be done in a CMBS deal—and we can share that knowledge with you. ❖