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NorthMarq Capital

TAKEAWAYS FROM THE 2018 COMMERCIAL REAL ESTATE FINANCE (CREF) CONFERENCE

By Susan Branscome, SVP/Managing Director

All lenders, including life insurance companies have large 2018 commercial loan production budgets and will be aggressively lending this year. Lower leverage deals—50-65 percent LTV loans—command lower spreads: **as low as 105-120 bps above the Treasury yields.** Before the CREF conference spreads had not declined with the treasury rise yet after the conference—with evidence of enhanced competition for fewer available deals— spreads are expected to drop, perhaps as much as 10 to 15 basis points.

RECOURSE: With the end of this real estate cycle looming, borrowers would be well-advised to manage recourse risk. Short memories are dangerous: in 2009 we witnessed commercial banks refusing to extend loans without large right-sizing loan reductions and leveraging recourse/guarantees to influence borrower's options on property financing. **It is a mistake to have recourse on a majority of loans in real estate portfolios at this stage of the cycle.**

PROPERTY TYPES: Multifamily and industrial continue to be the favored property types commanding the best loan terms. Lenders continue to lend conservatively on office and retail properties; however, grocery-anchored centers are still commanding very favorable terms. Retail lending is cautious with lenders favoring more service-oriented retailers such as hair and nail salons and restaurants versus big-box retailers being most affected by e-commerce activity. Hotels and self-storage properties can be financed today as well.

INTEREST RATES—SWAPS AND FORWARD COMMITTMENTS: The 10-year Treasury yield has increased more than 70 bps since September 2017. Where is it headed? We do not know, yet most predict it will continue to move higher. **It is advisable to consider locking floating-rate deals now,** and if loans are not expiring consider locking rates on a forward basis, six or nine or 12 months forward. Forward loans can be used for loans expiring in 2018 and 2019 or perhaps properties currently in lease-up. Borrowers who have entered into LIBOR interest rate **swaps during years 2012, 2015, and 2016 should consider whether it makes sense to review these to determine if they are "in the money," paying off at a discount.** While these interest rates may be lower than the current fixed rates, there is an opportunity to lock the interest rate now in the 4.0 percent range, fixed for 10-25 years versus taking the risk that long-term, fixed rates will be higher when the swap period expires.

COMMERCIAL BANKS: There is widespread sentiment that banks are pulling back from lending and have become more conservative, therefore yielding opportunities for long-term lenders. Further, the gap between short-term LIBOR rates and long-term 10-year rates has narrowed dramatically during the past six months, causing borrowers to choose to lock interest rates as they believe long-term interest rates will continue to move higher.

BRIDGE LENDERS: There are many excellent options for bridge loans and many lenders in the market with this product. These loans are 80-90 percent of the capital stack, non-recourse, short-term, floating-rate loans available to properties that are in a state of leasing and/or construction transition at rates as low as 250 bps above LIBOR. **Bridge loans are excellent options for borrowers seeking non-recourse and available future loan funds** for tenant finish/capex to allow the properties to be positioned for refinance or sale in the future.

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CMBS LENDERS: The CMBS lenders continue to find their lending niche, which works for properties in smaller markets with higher leverage, 70-75 percent LTV. **Some conduit lenders are locking interest rates early in the process,** allowing borrowers to manage interest rate risk and be assured of ultimate loan amounts. CMBS lenders are improving the loan servicing experience for borrowers by paying more to master servicers, staying involved with requests and pre-approving borrower requests.

CONSTRUCTION TO PERM LOANS: Many life insurance companies are offering construction to permanent loan programs, **allowing borrowers opportunities to lock interest rates early** during the construction phase and convert to permanent when completion and lease-up occur.

EQUITY, PREFERRED EQUITY AND MEZZ: NorthMarq has access to many equity sources, including JV equity, preferred equity and mezz and participating loans. Let us know if you would like us to source this capital for you. ❖

In 2017 the NorthMarq Capital Cincinnati office closed 47 loans on all property types with many different types of lenders. We have immediate, superior market knowledge from our 36 production offices and 165 producers. The NorthMarq Capital platform allows us to have real-time loan term information on all active lenders, which include more than 50 life companies, Freddie Mac, Fannie Mae, CMBS, HUD, many bridge lenders and numerous equity sources. These lenders finance fixed-rate, long-term, short-term, construction and bridge deals. We work very hard to obtain the best loan terms in the country and ensure borrowers have successful and efficient loan approvals, commitment and closing processes. It's what we do, what we have always done, and we are very good at it. Call us if we can help you.

OUR TEAM

Susan Branscome
SVP | MANAGING DIRECTOR
513.985.2266
sbranscome@northmarq.com

Noah Juran
VICE PRESIDENT
513.985.2263
njuran@northmarq.com

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