2023 CMBA TAKEAWAYS

Overall Market Notes

There is an abundance of caution in the market; however, optimism abound that economic market fundamentals remain sound. Creative financing solutions are being crafted to meet market need on a case-by-case basis and some lending programs are expanding to offer mezzanine financing, preferred equity, participating loans or layering in other novel products to decrease capital cost.

Key notes:

- Equity is plentiful yet patient and waiting on the sidelines to transact at the right basis, office included.
- That said, increased rates are still trickling through the financial sector leading to maturity distress. Loan workouts and extensions are beginning.
- While the industry may hope that interest rates will decrease soon there is a high likelihood that, unless volatility suddenly exits the market, this may be the new normal for the near to mid-term.

Life Insurance Companies

Life Companies remain the most active and competitive capital source in the market; however, they are becoming more selective due to both caution and high demand caused by lack of competition.

Key notes:

- Preferred asset types include multifamily, industrial, grocery-anchored retail, self-storage.
- Leverage is still dictated by DSCR. 1.50x DSCR on 25yr am awards top pricing.
- Many life companies are behind in their yearly allocations and seek to put out the same if not more funds in 2024.
- Some have construction to perm, transitional / bridge (fixed and floating), and participating programs
- Spreads range from 1.80%-2.30% over the UST for permanent debt.
- Spreads range from 1.40% - 1.80% over the UST for select low-LTV Class-A multifamily, industrial, or grocery-anchored retail deals above $10-15MM.

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Agency Lenders

While pricing has drastically increased from the Agency lenders throughout the year they still offer an attractive and flexible financing solution for multifamily.

Key notes:

- Decreased transaction activity has resulted in agencies currently achieving only 35% of their 2023 allocation goals.
- Increased interest in short-term lease-up deals expected to stabilize in 3-4 months from rate lock.
- Interest only is still available and due to the inverted yield curve this has a minimal effect on overall spread.
- Spreads in the 1.40% – 2.20% range over the UST, with the best pricing on low leverage and affordable projects.

Debt Funds

Many are having their busiest year ever as banking pull-back has caused a flood of deals to move their way. However, not everything fits as most are still underwriting loan proceeds to a realistic take-out at the end of the business plan.

Key notes:

- Some are engaging borrowers in work-outs for loans arranged on properties in the last 2-3 years where the business plan may not have come to fruition, project costs or floating rates have increased, the sale market is not active, or a realistic conventional payoff is not available.
- Preferred equity and mezzanine programs are available but may be cost prohibitive at 12-16%.
- Typical bridge loans have a rate range of 8%-12% fixed, or SOFR + 3.50% – 7.00% floating.

Bank / Credit Unions / CMBS

Key notes:

- Turmoil in the banking sector 2023 caused bank lenders to all but pull back from lending into the market, taking a risk-off approach by shoring up liquid reserves and focusing on existing clients .
- While credit unions do not seek a depository relationship and can offer flexible prepayment structures, their programs are typically recourse and rates at the high end of the conventional lending spectrum. They are active but certainty of execution can be quickly upended through closing by changing credit perspective.