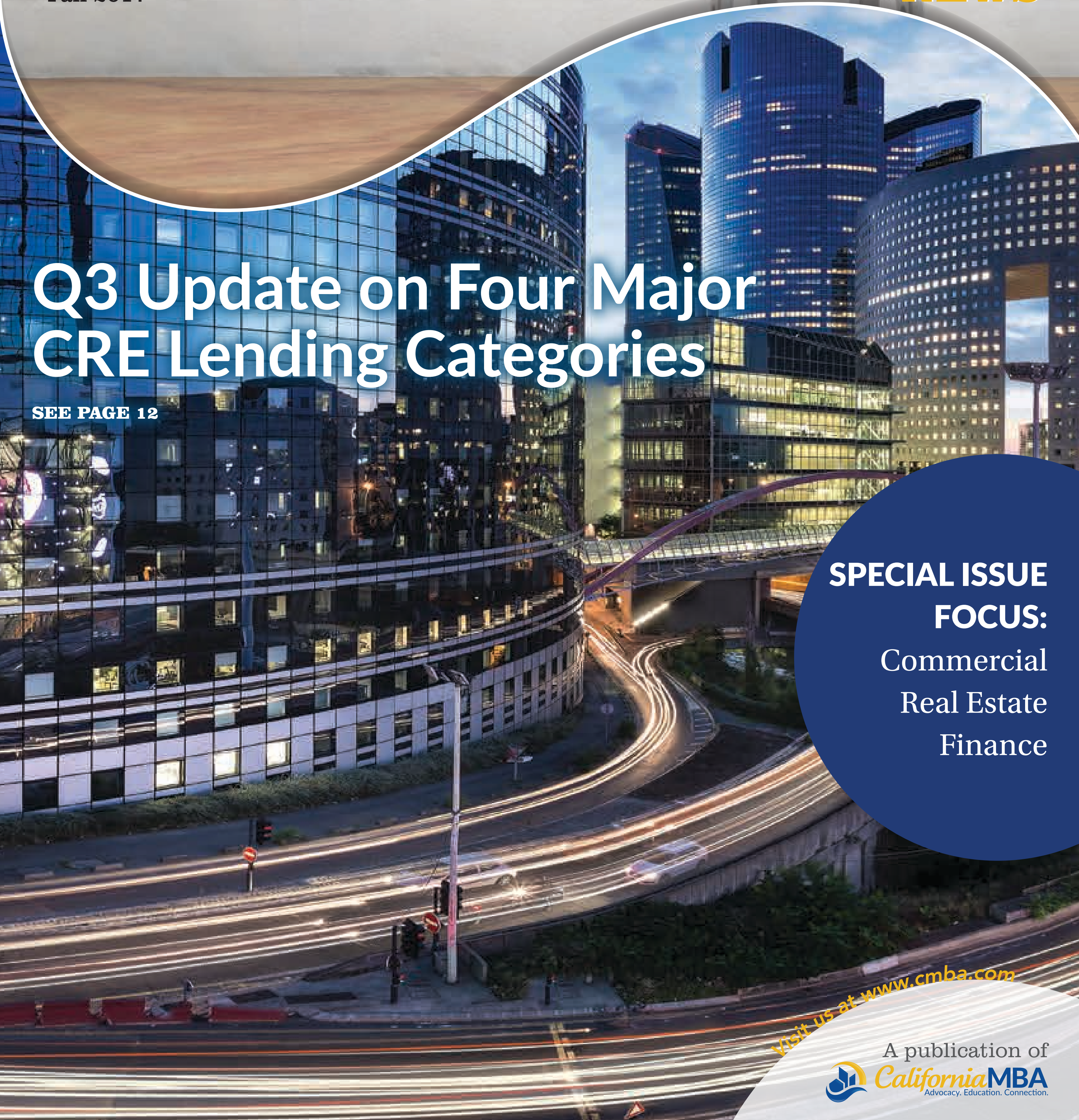
HOW ARTIFICIAL INTELLIGENCE IS CHANGING THE FACE OF MARKETING

SEE PAGE 18

California MORTGAGE FINANCE NEWS

Fall 2017



Q3 Update on Four Major CRE Lending Categories

SEE PAGE 12

SPECIAL ISSUE FOCUS: Commercial Real Estate Finance

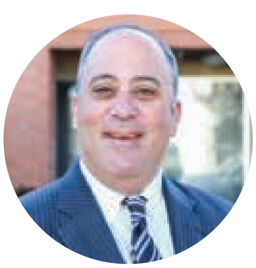
Visit us at www.cmba.com

A publication of California MBA
Advocacy. Education. Connection.

Q3 UPDATE *on Four Major* CRE LENDING CATEGORIES

Heading into August of 2017, it is important to keep updated on what is happening in the ever-changing CREF (Commercial Real Estate Finance) market. The following is an update summarizing the four major lending categories:

by
DANIEL FRIEDEBERG,
Chief Executive Officer,
Barry Slatt Mortgage



LIFE COMPANIES

Life insurance companies are typically "asset allocation" lenders. In other words, life companies invest a percentage of their overall investment portfolio into commercial real estate loans. Commercial real estate loans are held as long-term investments in addition to other investments such as high quality, investment grade bonds. Life Companies can offer fixed-rate loans from 3-30 years in duration. Most benchmark 10-year fixed rate loans are currently being placed in the 3.50%-4.75% range depending on the risk profile of the transaction. Most life companies report that these yields are greater than what can be achieved by purchasing a comparable quality bond. Consequently, we continue to see strong demand for Life Companies to invest in the commercial real estate sector.

CMBS

In 2017, there have been multiple successful securitizations and over the past 6-7 months the CMBS market has shown consistency and strength. While

...Cover Story continued on page 13

Cover Story continued from page 13...

spreads contracted significantly over last 2 quarters, there are some signs of spreads flattening out. Per commercial mortgage alert survey many of the cmbs shops are predicting spreads to continue this course for the balance of the year. With that stated, over the last couple weeks we have seen strength in AAA's with spreads in the 90-91 range and BBB's in the 350-spread range. This translates to some competitive pricing, especially for low leverage transactions. Ten year fixed rates range from 3.85%-5.00%. Higher leverage and interest only loans are generally available but tend to price toward the higher end of the rate range. CMBS has also continued to perform as a strong resource for lower leverage loans with spreads dipping into the 165-185 range for select transactions that meet certain LTV and DSCR metrics.

BANKS

Banks continue to be more conservative in their compliance departments and consequently in their underwriting. Banks typically offer short-term fixed rate loans (0-5 years) and transitional loans (bridge and construction). The market for these loans is still very liquid, but has become more conservative as we head toward the later stages of the cycle. Banks will continue to pump the breaks for their CRE platforms and focusing more in the multi-family and owner user space. Borrowers in the owner user and multi-family space will continue to see competitive pricing. Those borrowers who focus in the CRE space will see some pull back. Banks in the CRE space will lean toward providing loans for investment grade single tenant properties and other local commercial assets where borrowers are focused on shorter term loans from 3 to 7 years. Interest rates remain competitive with 5-year money in the 4.00% - 4.50% range.

AGENCY

We are seeing the agency lenders continue to be aggressive with their production. According to a July 21, 2017 article in Commercial Mortgage Alert, "Fannie Mae and Freddie Mac are on track to set new records again this year for purchase of multi-family mortgages". In particular there is continued demand for transactions in the affordable housing space where pricing waivers and full term interest only is readily available. Fannie's long term 12 and 15 year fixed rate options at only slightly wider rates than their 10-year term appear to be attracting more borrowers. Fixed interest rates range from low 4% to 5% depending on length of term and leverage, while we still are seeing high 2% to high 3% money for floating rate options.

Bridge loans are another area of emphasis for the agency lenders and we expect that to continue through the balance of the year as Fannie continues to roll out their Fixed Rate Rehab program.

Last, there is additional focus on "going green". The agencies, specifically Fannie, are aggressively pushing their green incentive program for all property ages as long as you can demonstrate that the additional

savings in energy or water can be realized. Freddie is also focused on pushing similar "green" products for properties constructed 2002 and after.