



Friends --

The annual Mortgage Bankers Association commercial finance conference wrapped up last Wednesday and the commercial real estate market for 2015 continues to be awash with capital. Freddie Mac, Fannie Mae, FHA, insurance companies, CMBS lenders, banks, and non-traditional lenders are all active and seeking to increase their volumes in the coming year.

Following is a brief discussion of each segment:

Freddie Mac and Fannie Mae

Both GSEs have been given hard caps of \$30 Billion for 2015, excluding affordable and mobile home properties. Even though both have great pipelines of funded loans they are keeping their foot on the gas since production throughout the year is non-linear and they don't want to get caught in the fourth quarter in jeopardy of missing their cap. **Fannie Mae** is pushing out to 12 and 15-year loan terms, offering 1% or par prepay terms during the final 2 or 3 years. The benefits of these longer term loans are (1) there are no underwriting floors restricting loan amounts, (2) lengthier IO periods available at higher leverage, and (3) low fixed interest rates are available for an extended holding term. **Freddie Mac** has moved into the pre-stabilized arena and they intend to dive back into the acquisition refurbishment and rehab spaces. Their index lock option drew considerable interest in 2014 and they have expanded the deal cap to \$100 MM. Their pricing has been aggressive and they, too, are looking to extend beyond 10 years in their fixed rate loans. **Both agencies** have extremely attractive floating rate products for those interested in the lowest current rates with tremendous prepayment flexibility.

FHA

HUD looks to remain active in 2015 and has a focus on affordable, preservation and healthcare transactions. A tremendous construction/permanent option, borrowers today should be able to get a 221(d)(4) up and down in 8-12 months depending on where they are in the design/zoning/approval/bid process. 40-year amortization schedules and the ability to structure virtually any prepayment scenario make these deals attractive, in particular for those who have owned the land and taken it through a value enhancing re-zoning. Interest rate resets are very popular for existing HUD loans, and 223(f) refinances are a good way to recapture prior amortization, lower interest rates, and reset amortization schedules.

Insurance Companies

Virtually every insurance company is looking to expand their commercial real estate mortgage allocations in 2015. They continue to actively finance retail, office, MOB, industrial and multifamily, with multifamily being the most favored asset class. Underwriting LTV's run between 50% and 75% with a couple of insurance companies entering the A/B market with leverage up to 80-85%. They divide the loan internally and price the pieces separately with top tier borrowers, great markets, and class A properties at the top of their shopping list. A couple of insurance companies are offering 35 and 40-year fully amortizing mortgages for those wishing to "invest and forget." More companies are offering interest only; more are entering the pre-stabilized arena; more have prepayment flexibility of differing types; and more are going forward (to the end of 2015) with one or two crossing the calendar frontier into 2016 -- but only for the "right" deal. Pricing is tight in most cases, although many companies underwrite to their own cap rate, DCR or debt yield which means your 75% and theirs are not equivalent. Fixed rate construction/permanent loans, new construction mezzanine (up to 85% LTC), and participating (pseudo JV) loan structures are all available from an increasing number of entrants.

CMBS

CMBS originators securitized \$94 Billion in commercial mortgages in 2014 and project to securitize \$120 Billion in 2015. They are actively financing office, retail, industrial, self-storage, hospitality and multifamily assets. Pricing is wider than the GSE and insurance markets; proceeds are not materially higher; interest only, while available, lags that offered by the GSEs; prepayment has no flexibility; and borrowers cannot lock an interest rate until one or two days prior to closing (without taking significant risk). With that said, several CMBS shops are offering first+mezzanine structures that will take leverage to 83-85% LTV, however rating agency and B-piece input are limiting this world somewhat. Roughly 1/3 of 2015's CMBS multifamily maturities have already been refinanced, and we expect more of 2016's and 2017's maturities to be pulled through early as well.

Non-traditional Lenders

A variety of banks, mortgage REITs, PE firms, and other investors have entered the mortgage space for bridge deals as well as structured permanent deals. Non-recourse acquisition/transitional bridge financing is available up to 80% LTC at rates varying from 250 to 800 over LIBOR. Grandbridge subsidiary, **BB&T Real Estate Funding**, is active in this arena. BB&T REF also has a fixed rate 5-10 year program offering fairly full leverage with some interest only and an extremely attractive prepayment with YM plus 50 bps to the mid-point of the loan and then a flat 50 bps for the last half of the loan term. This is a great structure for borrowers wanting a longer term fixed rate with the ability to sell with a small premium.

Grandbridge Update:

2014 Grandbridge production volume was \$5.26 Billion. Grandbridge is a Freddie Mac Program Plus Seller/Servicer; a Fannie Mae DUS Lender; and an active participant in FHA-insured loan products as a MAP and LEAN-approved healthcare lender, as well as an correspondent for over 100 capital sources including: life insurance companies, pension funds and CMBS lenders.

