FEATURED COMMERCIAL

Facing the Maturities Wall

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Despite some twists and turns, lending activity over the last few years has been growing, and recent loan volumes have been robust. An improving economy and real estate climate, low interest rates, and an abundance of capital have contributed to a seemingly ideal lending environment. Fueling this growth in lending activity has been the concurrent run up of maturing loans.

Just under a decade ago, commercial real estate lending had set new records. By 2007, and prior to the onset of the great recession, the CMBS market attained a new high watermark with over $200 billion in issuance. Aggregate issuance over just the prior three years was well over half a trillion dollars. In addition, billions more from banks, insurance companies, and pension funds, many with 10 year terms, led to what is commonly known as the wall of maturities which is scheduled to peak in 2017.

With the crest of loan maturities just ahead, many borrowers may not be fully aware of the potential challenges they could face when they go to market to refinance. Despite an improved market and lenders hungry for business, underwriting has become more disciplined, and property characteristics have changed. As a result, assets that seemed easy to finance 10 years ago at 80% leverage may now struggle to achieve 65%.

Ten years may not feel like such a long time, but with the significant improvement and availability of market data, lenders today have far greater insight into property and market performance. Data sources such as TREPP, RCA, Costar and others provide up to date and near instantaneous information on loans, properties, and markets that was not easily accessible even a few years ago. Lenders can now quickly identify issues, evaluate risks, and compare property performance longitudinally across markets and industry sectors.

Adding to borrowers' challenges are increasing regulatory pressures which will impact lender behavior and appetite for writing new loans. From Dodd-Frank to Basel III, new risk retention rules for CMBS and lending limits for banks, borrowers and lenders alike will be dealing with new uncertainties. Loan pricing will likely increase, leverage will become more constrained, and lenders will become more selective on which assets and to whom they will lend.

Any number of issues may conspire to complicate the refinance process. The most common of these have to do with changes in the market, tenancy, and competition as well as current underwriting parameters. For example, lenders today are reluctant to rewrite loans in regions that have suffered economically due to deterioration in the oil and gas sector or Sunbelt metros struggling with deindustrialization. Markets that were most severely impacted during the great recession and only recently have begun to approach 10-

...Featured Commercial continued on page 47