
Factors That Will Influence Lenders in 2018

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NEWPORT BEACH, CA—Slowing rent and valuation growth, coupled with rising interest rates, will constrain leverage and cause terms to tighten in the new year, **A10 Capital** principal and EVP **Michael Singh** tells GlobeSt.com. We caught up with Singh to chat about the CRE **financing** trends he saw in 2017, his expectations for 2018 and his views on the newly passed GOP tax plan.

GlobeSt.com: What overarching financing trends prevailed over Southern California in 2017?

Singh: A recurring theme this year has been the growing roster of **private-capital** providers that have entered the lending space. For the most part opportunistic and unregulated when compared to traditional lenders, these alternative capital sources—**debt** funds, mortgage **REITs**, and finance companies—have come on strong in 2017, growing their share of the market. Ironically while in search of higher relative yields, the outcome of this increased competition has resulted in compressed pricing and increased leverage, to the benefit of borrowers. The overall impact has been an abundance of debt capital for virtually all properties types.

GlobeSt.com: What trends do you see becoming strong in 2018?

Singh: Twenty-eighteen will be interesting to watch as rising interest rates and continued strong capital flows meet slowing, if not declining, transaction volume. **Multifamily** lending should continue to see decent volume, although in many markets, rents appear to be peaking while **construction** spending has yet to pull back. **Office** and **industrial** lending growth should be in line with the market, though muted since occupancy and rents will unlikely continue their upward progression. **Warehouse** and **distribution** properties will be standouts. **Retail** has and will continue to face tighter scrutiny as the industry resets to changing consumer preferences and lenders decide which bets to make.

GlobeSt.com: What are your views regarding the recently passed GOP tax plan and its impact on Southern California CRE?

Singh: It's too soon to tell what the full impact of the new tax bill will be. At first blush, it appears that **commercial real estate** owners will be pleased and see tangible benefits. Less well understood is how these tax changes will affect the companies, employees and renters, the drivers of real estate cash flow, as well as the **economy** overall, especially in states such as California with already high state taxes and **housing** costs.

GlobeSt.com: What else should our readers know about CRE financing as we near the end of this long recovery?

Singh: Hard to believe that the **Great Recession** began a decade ago. Post-recession values have mostly recovered, and in some cases spectacularly out-performed pre-recession levels. Generally, real estate markets feel robust, and activity levels, both equity and debt, should remain strong. However, end-of-cycle markers are appearing, which will lead to a more cautionary and selective investment environment. For lenders, slowing rent and valuation growth coupled with rising interest rates will constrain leverage and cause terms to tighten. For borrowers sitting on the sidelines, 2018 should still be an attractive time to lock in relatively low-rate long-term financing. For **value-add** or repositioning plays, locking in fixed rates early will be important especially since floating-rate indices have nearly doubled over the past year. Lenders offering fixed-rate bridge loans and term loans out to 20 years should see demand rise.
