# The Industry is Flush Again with Capital and Capital Providers Looking to Lend

**Notes from Cohen Financial, an attendee at the Mortgage Bankers Association Commercial Real Estate Finance Conference (MBA CREF, February 1-4, 2010 in Las Vegas)**

## Facts and Findings:

1. Money is available. The Life insurance industry believes they will lend $32B this year – double what they did in 2009.
2. There are 6 new conduits taking applications and actively quoting deals.
3. The market has tri-furcated: Life Companies seek the highest quality deals, the best borrowers, the best products and best locations and they will price accordingly (as low as 5.75%). The bigger and better banks will "reach up" and compete with the Life Companies where they can but will be active a tier below (and will price accordingly higher). The finance companies and conduits who can't compete (or choose not to for purpose of yield reasons) will seek out deals in the lowest tier. But money and providers are out there and are actively financing again.
4. Interest rates, depending on the above-mentioned tiers, are in the 6-8% range.
5. Loan-to-Value (LTV) is not the driving force. People are uncomfortable with market fundamentals and therefore the question of true values, so they are underwriting against the Debt Service Coverage (DCR) ratio and Debt Yield. Debt Yield is the ratio of verifiable net operating income divided by the principal balance. They are solving for a number between 10 and 12 percent (this is down from 12-17%).
6. Apartments, office, industrial, and retail are the primary interest of lenders. There is some appetite for some hotels and some more medical office. There is light appetite for vacancy – they want in-place income.
7. There is capital out there for the borrower who needs to improve his property but doesn't have the funds, but it will be expensive.
8. People believe interest rates will be flat to lower in 2010 and as the year progresses spreads are likely to occur. Over the next 3 years, interest rates will rise.
9. Loan-to-Values seem to be in the 60-65% range but competitive pressure throughout the year should move Life Companies to 70% and conduits to 75%. There is an outside chance that by year end a momentum play would create conduits to be in the 80% range.
10. There seems to be no way to differentiate one capital provider from another. They think alike and seek alike.
11. It looks like for now, the capital providers are trying to leave the "ruinous" pile (of deals and properties) behind in order to originate new business. Adding new loans in this environment should be deemed a risk mitigant for their existing portfolios.

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