Banks, Conduits Lead Lending Activity for CRE

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It's shaping up to be another big year for commercial and multifamily lending—especially for banks and conduit lenders, according to the latest figures from the Mortgage Bankers Association (MBA), an industry trade group.

"Commercial and multifamily borrowing is running at about the same pace as 2013, even though the volume of loans maturing and needing to be refinanced is 23 percent lower than last year's level," says Jamie Woodwell, MBA's vice president of commercial real estate research.

Commercial real estate lenders closed a high volume of loans at the end of last year, leaving relatively little business for them to complete in the first quarter. But business picked up again in the spring. In the second quarter, lenders increased the volume of commercial and multifamily loans by about 34 percent compared to the first quarter, according to the MBA index. That's roughly the same uptick as the 36 percent quarter-over-quarter increase recorded in the second quarter of 2013.

Lenders are expected to continue to allocate more and more capital to real estate.

"As property prices continue to improve, property fundamentals firm, and maturity volumes pick up, we expect originations activity to pick us as well," says Woodwell.

Front of the line

Conduit lenders and banks are rapidly growing their real estate lending volumes, at the expense of life companies and agency lenders.

Conduit lenders, which bundle their loans to sell to Wall Street investors as CMBS bonds, continue to grow quickly. MBA's volume index for this segment of the market rose more than 45 percent in the second quarter compared to the year before. That's the biggest increase for any lender type. Conduit lenders are gradually becoming more competitive and the interest rates they are offering are dropping lower.

Commercial banks are also on track to lend considerably more this year than the last. Their volume of lending in the second quarter was up 19 percent compared to the year before. Improving balance sheets and the need to capture yields is driving banks to return to real estate lending. Many banks now offer longer-term, fixed-rate loans to real estate properties. Banks also had an usually strong first quarter—lending volume in the strong second quarter actually fell 12 percent compared to the first quarter.

Life companies continue to compete hard to lend the core, class-A real estate properties, though their activity eased slightly in the second quarter, with lending volume 13 percent lower compared to the second quarter 2013.

Fannie Mae and Freddie Mac are also on track to make fewer multifamily loans in 2014. The decrease in volume is a surprise, since the federal regulator that governs Fannie and Freddie has decreed that the agencies will be allowed to make as many multifamily loans in 2014 as they made in 2013—if they can make the deals. But competition from banks and other lenders is biting into Fannie Mae and Freddie Mac's business, experts say. The volume of loans made by agency lenders fell by 13 percent in the second quarter, compared to the year before.

The MBA index also shows lenders' changing preferences for different types of properties. The volume of loans secured by apartment, office and retail properties fell slightly—between 6 percent and 10 percent, depending on the property type—in the second quarter compared to year before.

In contrast, the volume of loans made to health care properties nearly doubled, rising 95 percent in the second quarter of 2014 compared to the second quarter of 2013. The volume of loans made to hotel properties also rose 45 percent compared to the year before and the volume of loans made to industrial properties rose 20 percent.

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