


# CRELA

COMMERCIAL REAL ESTATE LENDERS ASSOCIATION

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JUNE 1, 2022

## CRELA Miami Panel Summary



Commercial Real Estate Lenders Association

### Welcome to the Debt Capital Market Expert Panel

June 1<sup>st</sup> 2022  
12:00 PM (EST)  
Location: AC Hotel by Marriott  
Miami Brickell

### The Impact of Rising Interest Rates on Commercial Real Estate Financing and Transactions

#### Moderator



**Mackenzie Myles**  
Vice President  
**FINEO**  
Leading Global CRE Advisory Firm (#3 by mkt cap)

#### Panelists



**Chris Lentz**  
Executive Director  
**CUSHMAN & WAKEFIELD**  
Leading Global CRE Advisory Firm (#4 by mkt cap)



**Lisa DeMarco**  
Director  
**AMERICAN CAPITAL**  
A \$30B (AUM) Investment/Insurance Firm



**Maxx Carney**  
Senior Director  
**JLL**  
Leading Global CRE Advisory Firm (#2 by mkt cap)



**Eric Fixler**  
Executive Vice President  
**CBRE**  
Leading Global CRE Advisory Firm (#1 by mkt cap)

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From left to right: Eric Fixler, Maxx Carney, Mackenzie Myles, Lisa DeMarco, Chris Lentz

**Question:** Can you speak to what you are seeing in the current lending market for CRE, in respect to the significant rise in interest rates over the last 6 months? What has been the impact from your perspective on spreads, leverage, stress testing, cap rates?

**Summary of answers:**

Leverage for senior debt, conventional financing is being pushed down due to debt service coverage ratio constraints, as opposed to debt yield, borrowers need to be prepared to pivot and adapt for reduced proceeds. Exit analysis is very important right now as well as underwriting assumptions with lenders revisiting fundamentals.

Life companies are becoming less comfortable going past a 5-year term with a fixed rate, with spreads widening by approximately 60bps to 90bps increase thus far, specifically as it relates to moderate leverage, life company fixed rate paper on Class A assets.

Core investing is relatively safe in markets with job, income and population growth. There is a big disparity between buyers and sellers in the market and there is an expectation of 3-6 months of pricing discovery as it relates to going in cap rates and exit cap rate assumptions.



**Question:** As an intermediary of capital and an advisor, how are you able to decipher the changes in appetite from lenders and capital sources in the market. There are thousands of available capital sources that lend on CRE across the states, with recent changes in programs, credit appetite, availability of capital, etc. how do you decipher all this information? What tools and analytics do you utilize to understand and disseminate this information to borrowers?

**Summary of answers:** I have to talk on the phones to lenders all day to keep with the groups to understand changes in programs and appetites, now more than ever this is the advantage of a group like Finneo to track lending activity and credit appetite. The way we currently operate to keep track of the market is the sharing of information between our teams; our teams across the country actively share what they are seeing in the market and we all benefit from that insight.

We rely on intel from our trading desk to track market appetite. A lot of the clients we work with have strong lending relationships in the market, but they will engage us to be a proxy for the market to ensure their own lending relationships are on side, we would likely approach 30 to 80 and maybe even a 100 different capital sources.

**Question:** Where do you see the market going in the next 6 and 12 months?

**Summary of answers:** Looking at economic data and how the markets have responded over the past few weeks it appears we have entered that point of inflection to start to see a softening.

True capital markets-based lenders that rely on securitization or relying on warehouse leverage are going to see continued restructuring. Traditional banks and life companies, who are not as focused on the financial engineering of a loan are going to be more active.

The markets will continue to be liquid, but will be some discovery on who is out to play over the next few months. There will be less bids on transactions as well as cap rate expansion, with sellers understanding the issues that arise with negative leverage. Economists are expecting 50bps increase on exit cap rates for investment underwriting purposes.

Traditional exit lenders are not pushing back but will be revisiting fundamentals, especially as it pertains to debt service coverage ratios. It will be imperative for value-add projects or new construction to understand and control your costs.

There is negative leverage happening in the industry and due to this there will be expansion of cap rates. There will be an increase in preferred equity and mezz lending to backfill the reduction in senior debt leverage. Expected to see further expansion to lender spreads.