RELA — Chandan Survey of Commercial Real Estate Lender Sentiment

Real Estate Lenders Association & Chandan Economics

Q2 2013

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Based on Survey Responses Collected During July 2013

Lenders Expect Increase in Loan Commitments, Cite Easing Underwriting Standards, Stronger Borrowers

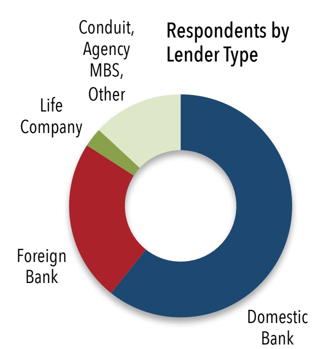
Commercial real estate lending will increase over the next year as underwriting standards ease and the number of well-qualified borrowers rises. Across the multifamily, office, retail, industrial, and hotel sectors, nearly four out of five respondents to the Q2 2013 Survey of Commercial Real Estate Lender Sentiment expect to maintain or increase the current dollar volume of their originations over the next twelve months.

Lenders report overwhelming that they plan to hold to current underwriting standards. But when asked about underwriting across the markets, nearly forty percent anticipate that standards will deteriorate as competition ramps up. In contrast with the prevailing market trend up to now, more lenders expect standards will tighten for multifamily loans more than any other property type.

In focus questions about loan sizes and interest rates, several banks reported increasing their maximum hold positions; most lenders reported an upper bound exceeding $50 million. Following on the second quarter's shift in the interest rate environment, respondents were evenly split on whether higher rates would impact the volume of seasoned loan refinancing activity over the next year.

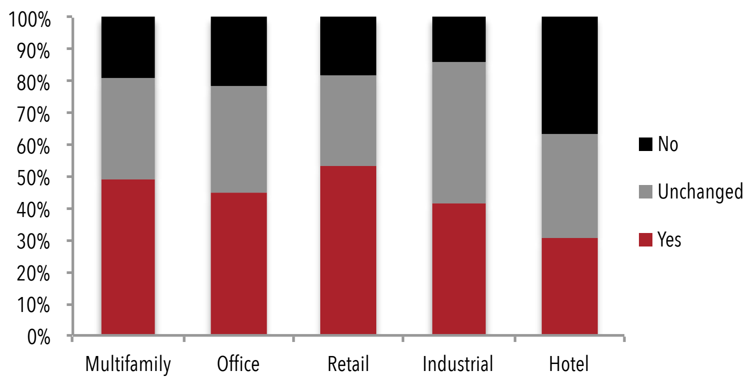
About the Survey of Commercial Real Estate Lender Sentiment

The RELA—Chandan Survey of Commercial Real Estate Lender Sentiment reports on lenders' expectations for mortgage origination volume, underwriting standards, and loan pricing in the commercial property sector. The survey is administered on a quarterly basis to the membership of the Real Estate Lenders Association, including domestic and foreign banks, life companies, agency lenders, and CMBS conduit lenders. Over the life of the survey, 60 percent of respondents identify as domestic bank lenders. 23 percent of respondents identify as foreign bank lenders; 17 percent, as agency or conduit lenders or another lender type. 68 percent of respondents identify as national lenders; 32 percent, as focused on a particular market or region.



Lending Volume

As compared to the last twelve months, do you expect your institution to originate a larger dollar volume of new loan commitments over the next twelve months, excluding extending or restructuring any loans currently in the portfolio?

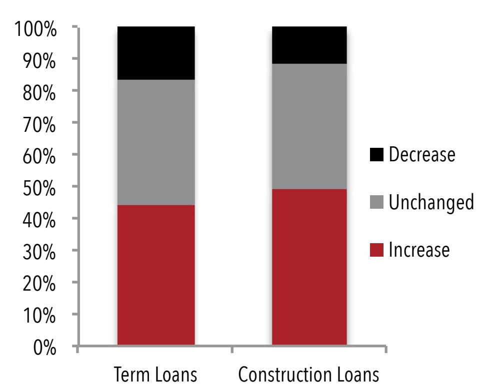


As more lenders reenter the market, respondents to the second quarter survey report increasing competition for high-quality lending opportunities. In spite of renewed competition and the related pressure on underwriting standards, nearly half of all respondents expect growth in their lending activity over the next year. This is substantiated by expectations of stronger demand from well-qualified borrowers (see Demand for Financing) as broader economic and labor market conditions improve. The outlook for the hotel sector is less sanguine, with the shares of lenders expecting to increase and decrease lending evenly matched.

Demand for Financing

Do you expect borrower demand for loans that meet your institutions' credit risk profile to increase, decrease, or stay the same over the next twelve months?

Across both term and construction lending, nearly half of respondents expect that demand for financing from well-qualified borrowers will increase over the next year. The tally of positive assessments is down slightly from previous quarters, however. This reflects that demand has already strengthened substantially in some segments of the market rather than a shift in the outlook for borrower quality.

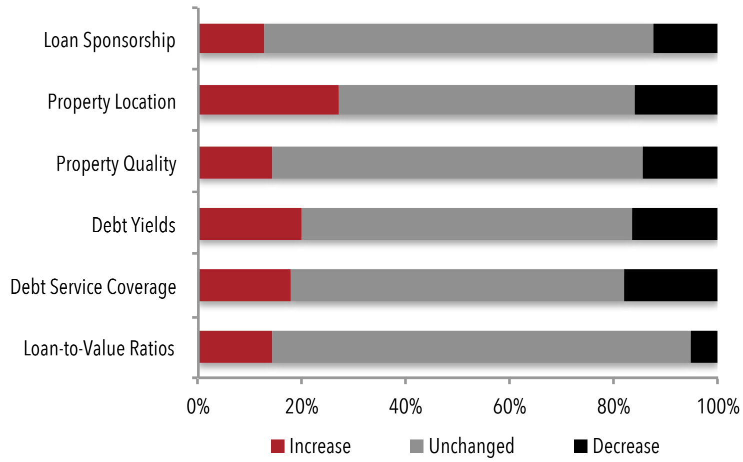


Demand for financing may not be keeping pace with supply. During the Q1 2013 survey, respondents expressed concern that the supply of financing was outpacing demand from well-qualified borrowers and that there was “too much money chasing too few deals.” While respondents have noted the increase in CMBS maturities, many of the prospective lending opportunities will not meet prevailing underwriting standards.

Lending Standards

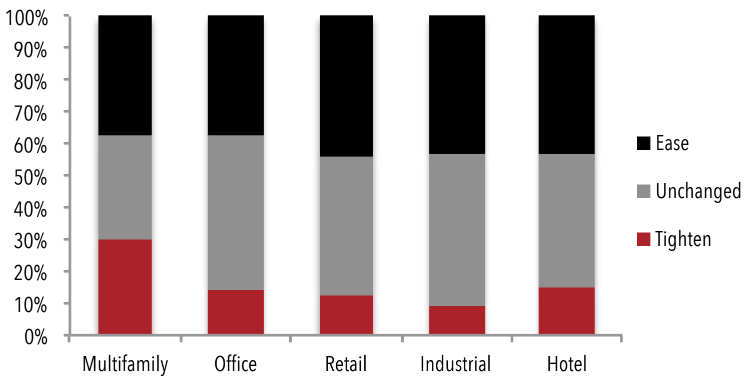
Across all property types, do you expect your institution's credit risk appetite to increase, decrease, or stay the same in the following categories over the next twelve months?

Lenders report modest increases in their individual institutions' tolerances for risk-taking. The vast majority of survey participants expect to hold to current standards, with the numbers projecting an increase or decrease in their credit risk appetite roughly equal in size. Credit risk along the dimension of property location is a notable exception. A relatively larger minority of lenders expects an increase in their appetite for secondary location and secondary market lending. This is consistent with an ongoing improvement in secondary market and value-add investment activity as broader conditions improve.



Lending Standards

Do you expect market-underwriting standards to tighten, ease, or remain unchanged over the next twelve months?

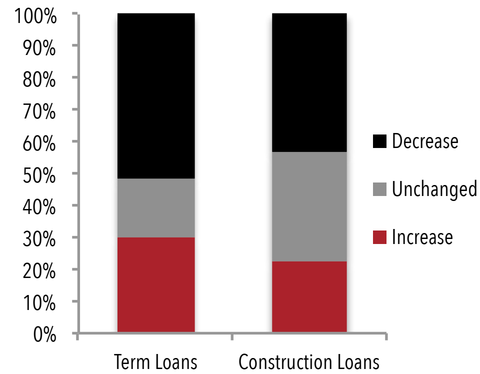


Lenders report little if any increase in their appetite for risk but are do not expect the same from the peer group. Lenders projecting that market-underwriting standards will ease over the next year outnumber more than two-to-one those expecting that standards will tighten. For multifamily lending, however, lenders are almost evenly split. Nearly a third expect that standards will tighten. This marks a shift from previous quarters. It may indicate a view that standards have loosened too much in some segments of the apartment market or that standards will tighten in response to slowing apartment occupancy and rent gains.

Loan Pricing

Do you expect market pricing for loans that meet your institution's credit risk profile to increase, decrease, or stay the same over the next twelve months?

Second quarter survey respondents generally expect that market-wide loan pricing will decrease over the next year. For term loans, nearly half of lenders expect a decline in pricing. That is down from almost 80 percent during the first quarter survey, before the sharp rise in long-term interest rates during May and June. With a higher risk profile and more subdued competition amongst lenders, construction loans will see a relatively smaller decline in pricing.

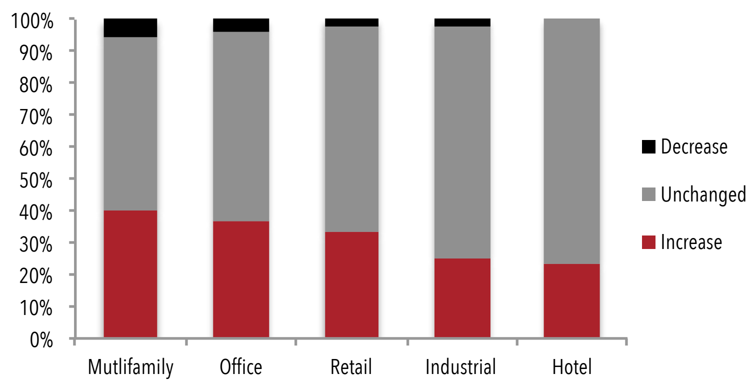


Focus Questions on Loan Sizing

The second quarter survey included two focus questions on loan sizing and lenders' maximum hold positions and a question regarding the impact of rising interest rates on refinancing activity.

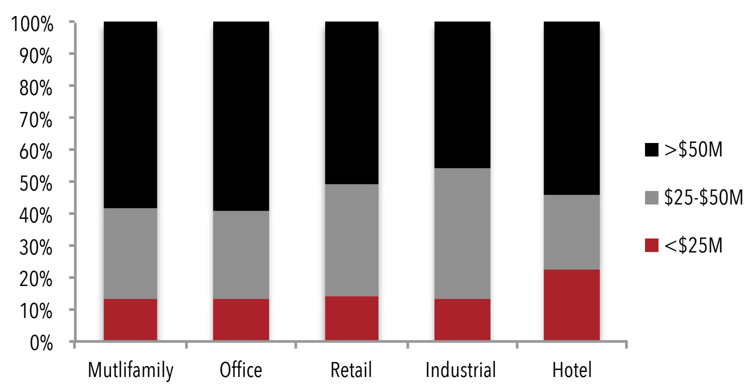
As compared to this time last year, my institution's maximum hold position in any single loan facility has:

Virtually no lenders report a decline in their maximum hold positions over the last year. To the greatest extent in the multifamily sector, a significant share of lenders has increased the upper bound on loan size as property prices have recovered.



My institution's maximum hold position in any single loan facility is:

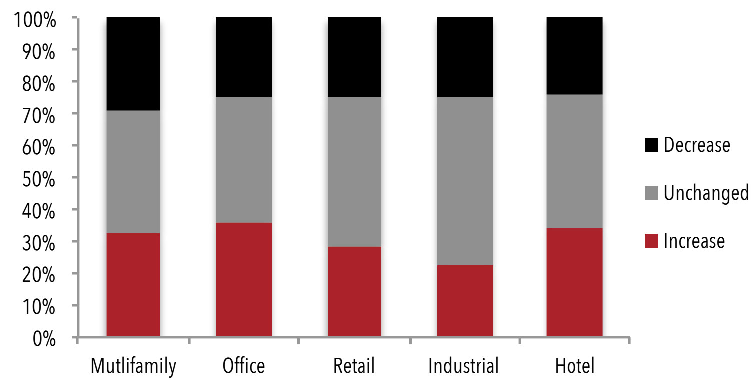
Across property types, a majority of institutions report a maximum hold size exceeding $50 million. Hold size constraints are most observable in the hotel sector, where nearly one-quarter of lenders have a maximum position below $25 million.



Focus Question on Refinancing Activity

As a result of rising interest rates, the volume of new refinancing loans made by my institution over the next 12 months will:

Lenders are split on the impact of rising interest rates on the volume of their multifamily and commercial real estate refinancing activity. The marginally larger share of lenders that expects an increase reflects an expectation that will respond to current rate increases by refinancing in advance of even larger expected shifts in the cost of debt.



The RELA—Chandan Survey of Commercial Real Estate Lender Sentiment is published following the end of each calendar quarter and reflects survey responses collected in the preceding weeks from the RELA membership.

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The Real Estate Lenders Association

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The Real Estate Lenders Association, Inc. is a not-for-profit corporation formed in 1991 to provide a forum for real estate lenders and equity investors to advance their knowledge and expertise in their industry. RELA's focus is on education, networking, and opportunity. Membership in RELA is exclusive to institutions with commercial real estate debt and equity under their direct control.

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Chandan Economics is a leader in commercial real estate debt market research. Leveraging its database of commercial mortgages originated by balance sheet, agency, and conduit lenders, Chandan reports on national and market lending trends and provides credit risk analytics for banks, life companies, investors in CMBS and agency securities, regulators, and policymakers.