

# RELA-Chandan Survey of Commercial Real Estate Lender Sentiment

Fall 2014

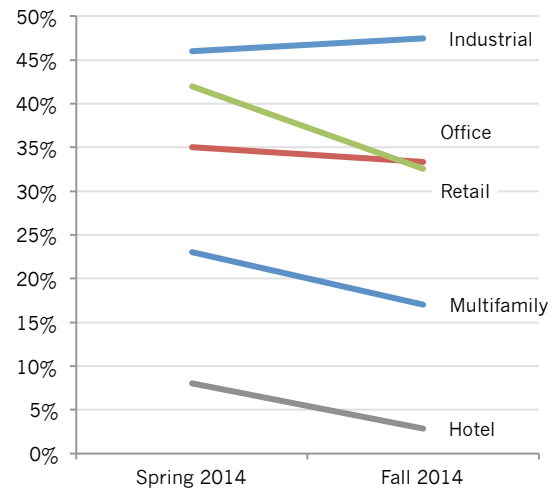
# In a More Competitive Lending Environment, Conduit Originators Poised for Gains

As the lending environment grows more competitive and underwriting standards ease further, CMBS lenders will be in the best position over the next year to grow their market share. Private and other non-bank lenders, as well as life companies, are also expected to grow their overall share, though the latter may reflect multiple platforms at large life companies. According to the Fall 2014 Survey of Commercial Real Estate Lender Sentiment, those gains may come at the expense of national and foreign banks, as well as relatively slower growth in agency lending.

## Little Room for Further Easing in Multifamily

The outlook for loan demand remains strong overall, particularly for term loans and loans backed by industrial properties. On the other hand, lenders see little room for further easing in multifamily credit standards or for growth in multifamily lending volume. The net share of survey respondents expecting looser underwriting for apartments has fallen to just 4%, down from 9% in the Spring 2014 survey. Fewer than 20% expect to grow apartment volume.

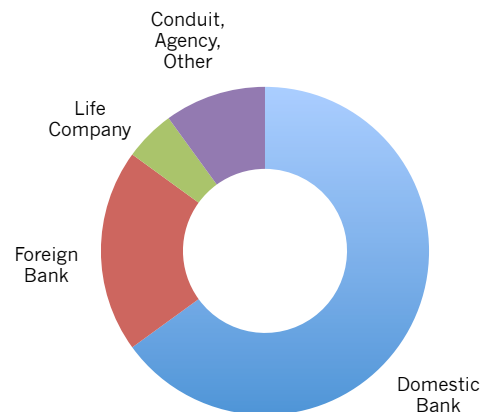
**Net Share of Lenders Expecting Increase in Lending Volume, by Property Type**



## About the RELA-Chandan **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 US multifamily and commercial property sectors†. The survey is administered on a quarterly basis to the membership of the Real Estate Lenders Association (RELA), including domestic and foreign banks, life companies, agency lenders, CMBS conduit lenders, and private and other non-bank lenders. Over the life of the survey, approximately 65 percent of respondents identify as domestic bank lenders. Approximately 20 percent of respondents identify as foreign bank lenders; 15 percent, as agency or conduit lenders or another lender type. In terms of geographic focus, 70 percent of respondents identify as national lenders while 30 percent are focused on a particular region of the United States.

**Survey Respondents by Lender Class, Life of Survey**



†Apartment, Office, Retail, Industrial, and Hotel

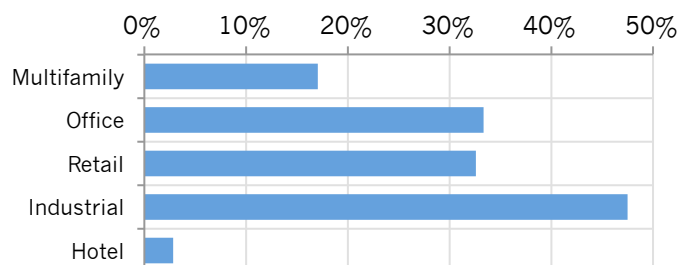
Survey responses are reported as net fractions, consistent with reporting by the Federal Reserve Board in the quarterly Senior Loan Officer Opinion Survey on Bank Lending Practices.

## Lending Volume

As compared to the last 12 months, do you expect the dollar volume of new loan commitments made by your institution (excluding extending or restructuring any loans currently included in the portfolio) will increase, decrease, or remain unchanged over the next 12 months?

The outlook for industrial property lending is strengthening. The net share of lenders expecting to increase their volume in the sector edged up to 48% in the Fall 2014 survey, up from 46% in the prior report. That contrasts with the apartment sector, where a crowded marketplace for financing and slowing growth in total activity has nearly a third of lenders anticipating a decline in their production over the next year. The outlook for hotel lending remains exceptionally reserved.

**Net Share of Lenders Expecting Increase in Lending Volume, by Property Type**



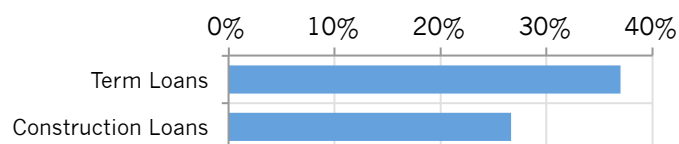
Expecting Increase in Lending Volume	Increase	Unchanged	Decrease	Net Increase
Multifamily	49%	19%	32%	17%
Office	47%	40%	13%	33%
Retail	47%	40%	14%	33%
Industrial	58%	33%	10%	48%
Hotel	34%	34%	31%	3%
<b>All Property Types</b>	<b>47%</b>	<b>33%</b>	<b>20%</b>	<b>27%</b>

## Borrower Demand

Across all property types and as compared to the last 12 months, do you expect borrower demand for loans that meet your institution's credit risk profile to increase, remain unchanged, or decrease over the next 12 months?

Balancing the higher tally of lenders, respondents anticipate continued growth in the pool of borrowers satisfying prevailing credit standards. The net share of lenders expecting an increase in borrower demand for term loans jumped to 37% in the Fall 2014 survey, up from 28% in the prior report. The outlook for construction loan demand is more reserved but still positive. That is largely consistent with latest bank call reports, which show that banks' net construction lending balances have increased slowly over the last five consecutive quarters.

**Net Share of Lenders Expecting Increase in Borrower Demand, by Loan Type**



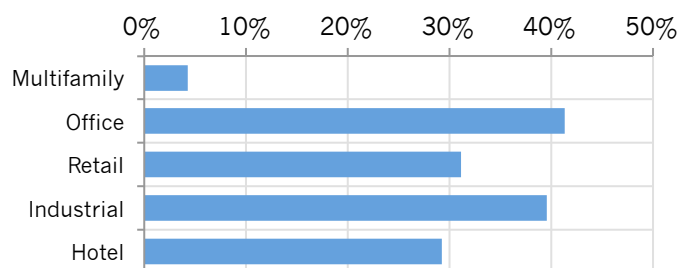
Expecting Increase in Borrower Demand	Increase	Unchanged	Decrease	Net Increase
Term Loans	52%	33%	15%	37%
Construction Loans	47%	33%	20%	27%
<b>All Loan Types</b>	<b>49%</b>	<b>33%</b>	<b>18%</b>	<b>32%</b>

## Underwriting Standards

As compared to the last 12 months, do you expect market underwriting standards to ease, remain unchanged, or tighten over the next 12 months.

Lenders anticipate that underwriting standards will ease for office and industrial properties, the latter consistent with expectations of higher industrial loan production. In the case of the hotel sector, lenders see easing standards even though the outlook for volume is flat. That may reflect the relative strength of the conduit in hotel lending and the survey's weighting to bank lenders. Further evidence of a peak in the multifamily lending cycle, the net share of lenders expecting further easing in the sector declined to just 4%, down sharply from 43% in early 2013.

**Net Share of Lenders Expecting Easing in Underwriting Standards, by Property Type**



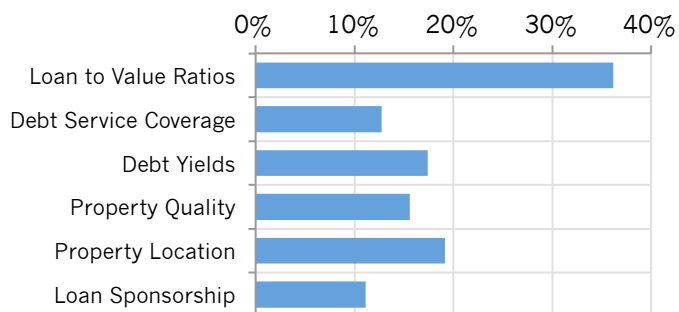
Expecting Easing in Underwriting Standards	Easing	Unchanged	Tightening	Net Easing
Multifamily	32%	40%	28%	4%
Office	52%	37%	11%	41%
Retail	47%	38%	16%	31%
Industrial	51%	37%	12%	40%
Hotel	41%	46%	12%	29%
<b>All Property Types</b>	<b>45%</b>	<b>40%</b>	<b>16%</b>	<b>29%</b>

## Risk Appetite

Across all property types and as compared to the last 12 months, do you expect your institution's appetite for credit risk to increase, remain unchanged, or decrease over the next 12 months?

Easing underwriting standards will not play out evenly across different dimensions of risk-taking. Lenders expect to take additional credit risk in the form of overall leverage, with the net share of respondents anticipating higher loan-to-value ratios increasing to 36%, up from 23% in the Spring 2014 survey. While easing along other dimensions is less pronounced, the overall result suggests a greater appetite for risk than in previous surveys. Across all characteristic, the net share of lenders projecting an increasing risk appetite rose to 19%, up from 12% in the Spring 2014 survey.

**Net Share of Lenders Expecting Increase in Appetite for Credit Risk, by Characteristic**



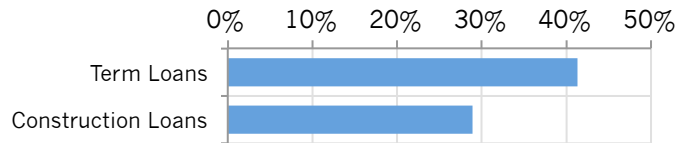
Expecting Increase in Appetite for Credit Risk	Increase	Unchanged	Decrease	Net Increase
Loan to Value Ratios	38%	60%	2%	36%
Debt Service Coverage	26%	62%	13%	13%
Debt Yields	30%	57%	13%	17%
Property Quality	27%	62%	11%	16%
Property Location	32%	55%	13%	19%
Loan Sponsorship	16%	80%	4%	11%
<b>All Characteristics</b>	<b>28%</b>	<b>62%</b>	<b>9%</b>	<b>19%</b>

## Market Pricing

Across all property types and as compared to the last 12 months, do you expect market pricing for loans that meet your institution's credit risk profile to increase, remain the same, or decrease over the next 12 months?

As in previous surveys, lenders expect further decreases in market pricing, particularly for term loans. Across term and construction loans, the net share of respondents anticipating a decrease in market pricing was 35%, up from 27% in the Spring 2014 survey.

**Net Share of Lenders Expecting Decrease in Market Pricing, by Loan Type**



Expecting Increase in Borrower Demand	Increase	Unchanged	Decrease	Net Decrease
Term Loans	17%	24%	59%	41%
Construction Loans	18%	36%	47%	29%
<b>All Loan Types</b>	18%	30%	53%	35%

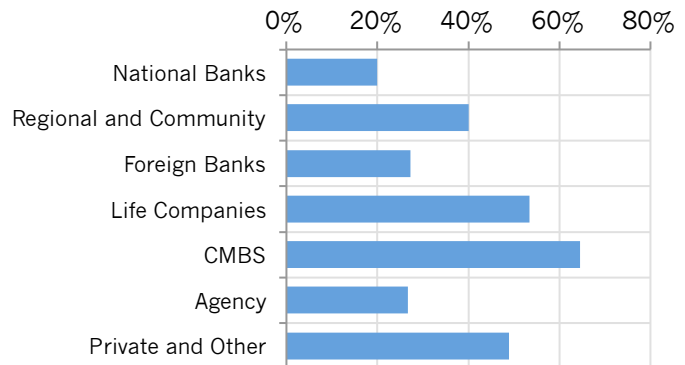
## Market Shares

As compared to the last 12 months, will the multifamily and commercial real estate lending market share increase, remain unchanged, or decrease over the next 12 months for each of the following classes of lenders?

An overwhelming majority of respondents expect that conduit lenders will grow their commercial real estate lending market share over the next year, pointing to higher CMBS issuance volume. Life companies and private and other non-bank lenders are also expected to capture larger shares of the overall market. In the case of life companies, the results may reflect the multiple platforms of the largest market participants, including balance sheet lending, CMBS lending, and agency and FHA lending.

National banks are not expected to fare as well in the competitive environment, though the outlook is more favorable for regional and community banks. Expectations for foreign banks are mixed. Although the net share of respondents anticipating a higher foreign bank market share was higher than for national banks, a relatively larger minority of lenders expects foreign banks will see their market share decline.

**Net Share of Lenders Expecting Increase in Market Share of Each Lender Class**



Expecting Increase in Market Share	Increase	Unchanged	Decrease	Net Increase
National Banks	38%	44%	18%	20%
Regional & Community Banks	60%	20%	20%	40%
Foreign Bank	50%	27%	23%	27%
Life Companies	60%	33%	7%	53%
CMBS	71%	22%	7%	64%
Agency	42%	42%	16%	27%
Private and Other Non-Bank	65%	19%	16%	49%

Note: Percentages in tables may not sum due to rounding



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## Fall 2014

### About the **Real Estate Lenders Association**

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.

#### **The Real Estate Lenders Association**

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### About **Chandan Economics**

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.

#### **Chandan Economics**

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