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CRE Finance Council
The Voice of Commercial Real Estate Finance

CRE Finance Council 2015 Outlook Survey Reveals:
Commercial Real Estate Finance Leaders Expect More Robust Market for 2015

- New CMBS issues expected to exceed 2014 volume by approximately 25% (compared to approximately $91 billion in 2014)
- Banks and life insurance companies predict more balance sheet loans to be made to commercial real estate owners
- Underwriting predicted to be more aggressive with capitalization rates tightening, leverage increasing and credit quality slipping; investors are wary of trend
- Nonbank lenders, including private equity, indicate they will provide more loans, especially first mortgage loans, to commercial real estate
- Moderate interest-rate hikes in 2015 not a significant concern

WASHINGTON, D.C. (January 2, 2015) — Leading commercial real estate lenders see a strong year ahead with ample credit and capital available to meet borrower demand, according to a survey of Commercial Real Estate Finance Council members to be released on Monday. CRE Finance Council members expect loan volumes in 2015 to top those in 2014 as loan maturities rise and property fundamentals improve.

The CRE Finance Council (www.CREFC.org) is the trade association for the commercial real estate finance industry globally. It serves participants in all aspects of the commercial and multifamily real estate finance market, including conduit lenders, investors and servicers of commercial mortgage-backed securities (CMBS), bank and life insurance company lenders, private equity lenders and investors, and government-sponsored enterprise (GSE) lenders. The U.S. market for commercial real estate debt is $3.3 trillion.

The CRE Finance Council 2015 Market Outlook Survey will be released on January 5, 2015, in advance of CREFC's Annual January Conference, which is January 7-9. More than 1,600 industry participants will attend the event at the Fontainebleau Hotel in Miami Beach.

Survey respondents expect the U.S. commercial real estate finance market in 2015 to be quite healthy, buoyed by strong investor demand, rising loan maturities, relatively low levels of new construction and improving property fundamentals.

While 74% of survey respondents expect benchmark interest rates to rise in 2015, in contrast to last year market participants are not as worried about interest rate increases as they are confident in the Federal Reserve's ability to manage any increases in a thoughtful manner.

Overall commercial real estate market liquidity is expected to stay the same or expand in 2015. 47% believe there will be more liquidity available in the marketplace for commercial real estate in 2015.

Underwriting is predicted to be more aggressive based on higher valuations and higher leverage, with potentially somewhat lower credit quality.

On the lender side, demand drivers include the potential for attractive risk-adjusted returns and fundamentally sound real estate market conditions. On the borrower side, demand drivers include the low cost of financing, economically justifiable real estate market activity including some new development, and the continuing wave of maturing CMBS.

Commenting on the survey results, CRE Finance Council President and CEO Stephen M. Renna observed, “Industry participants see another year of positive growth for commercial real estate debt markets as ample capital and credit should be available to meet borrower demand and pending loan maturities. This is buoyed by stronger overall economic growth and a trend of improving property fundamentals. However, for growth to be sustained it is critical that the industry demonstrate underwriting discipline in the face of abundant capital and heightened competition.”

Renna also cautioned that the industry will see a series of new regulations on banks and commercial mortgage lending come into effect in the next few years. These rules ultimately will make commercial real estate lending more costly and potentially dampen the market. In the near term, Congress’s inability to extend the Terrorism Risk Insurance Act beyond December 31, 2014 surprised the industry and could chill transactions if not resolved early in 2015. TRIA provides a federal backstop against potential losses from terrorist attacks.

Other Key Survey Findings

- Based on the expectations of underwriting valuations, 76% of survey respondents believe lenders will be “more aggressive” in 2015.

- 70% of survey respondents expect new CMBS issuance in 2015 to be in the range of $100 million to $125 million.

- 89% of survey respondents expect balance-sheet lenders to originate more loans in 2015 than in 2014.

- 69% of survey respondents expect private capital (nonbank) sources to originate more loans in 2015 than in 2014.

In addition, the CRE Finance Council 2015 Market Outlook Survey reveals market participants’ expectations for new construction activity by U.S. geographic region, anticipated property performance by type for office, industrial, retail, multifamily and hotel investment, and projected conduit lending levels by property type.

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