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Lawsuit claims Red Bull doesn't do anything more than coffee

COMMERCIAL REAL ESTATE 'If the rate is good ... what does it matter?'

CMBS stigma dissipates as they become popular with investors

by Eric Kalis

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Benjamin Berman is hunting for distressed South Florida real estate on behalf of the family-run Berman Enterprises, and he is not afraid to take on commercial mortgage-backed securities debt once the investment firm stabilizes the properties it acquires in the region.

For investors like Rockville, Maryland-based Berman, which pays cash for struggling real estate then finances the properties after boosting their occupancy, any stigma associated with the CMBS world is dissipating. The real estate downturn, a cycle when many distressed borrowers grew frustrated dealing with CMBS special servicers, is in the rear view. Fresh CMBS lending is on the rise at rates that are competitive with traditional lenders.

"When getting a loan, if the rate is good and the people backing the money is strong, what does it matter?" he asked.


MELANIE BELL

While hunting for distressed South Florida real estate, Benjamin Berman is not afraid to take on commercial mortgage-backed securities.

Sales of CMBS, bundled mortgages for sale to multiple investors, are projected to increase 50 percent to $60 billion, according to Deutsche Bank AG. If sales rise in the first quarter, it would mark the sixth straight quarterly increase.

That sales projection is in line with the average CMBS issuance in the several years leading up to last

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CMBS: Lenders more conservative than in boom era

decade's real estate boom. It is a much healthier amount of activity than the "crazy period" that culminated in the record $230 billion issued in 2007, said David Moret, a principal at Coral Gables-based Continental Real Estate Cos.

The CMBS market crashed in mid-2008 and were covered by federal bank bailouts. An incremental revival began as the financial and real estate markets inched toward recovery.

Moret noted he has been flooded with calls from lenders and investors who attended last week's CRE Finance Council conference in Miami Beach. When the conversations shifted to CMBS demand and spreads, or the difference in yield between CMBS and Treasuries with similar maturities, the tone was optimistic.

"A large part of the positive sentiment and overall recovery we are seeing in the commercial market is because CMBS is in there," Moret said. "If you have a property that qualifies for life [insurance] company or nonrecourse bank loan, then maybe you wouldn't want to go through some of the obstacles in getting CMBS loans. But it's a great vehicle to go a little bit higher on the leverage scale ... and for properties on the secondary market."

Nonrecourse loans are secured by property, but the borrower is not personally liable.

The rise in CMBS availability is driven by the high level of dormant capital ready to be spent on real estate and improving property performance, according to George Vail, a Miami Beach-based managing director at Ackman-Ziff Real Estate Group. South Florida is a particularly hot market due to investor demand and gains in operating fundamentals in most real estate sectors.

"Rents are rising. Occupancies are tightening," Vail said. "Everything is headed in the right direction."

'BACK IN THE GAME'

CMBS spreads have dropped significantly in the past six months and are at or near record lows, according to Trepp, one of the country's leading research organizations on the market. That is enticing for South Florida borrowers who either need to refinance existing CMBS debt or obtain new financing at favorable rates.

"It looks like 2012 was a transitional year," according to real estate attorney Louis Archambault, a partner at Miami-based Pathman Lewis.

"By the end of the year, the spreads came way down," he said. "A lot of generators of CMBS debt are getting back in the game and creating new trusts. It looks like investors are coming on board."

CMBS lenders are able to keep up with their primary competitors, life insurance companies, by offering similarly low interest rates.

Constantine Scurtis, CEO of Coral Gables-based SL Capital, a correspondent of Cantor Fitzgerald unit CCRE, said his company "is pricing a lot of deals" at a fixed 10-year interest rate between 4 percent and 4.5 percent.

Overall, SL Capital has originated $5 billion of CMBS issuance over the last two years with more than $3 billion issued in 2012 alone, according to Scurtis. The company keeps front-end fees often imposed on borrowers to a minimum.


Scurtis

Some recent South Florida CMBS transactions funded by CCRE include a $23 million loan for Harbour Towne Marina in Dania Beach, $9 million in financing for Abby Mini Storage in Miami and a $3.2 million loan for a Walgreens property in Fort Lauderdale.

"If you're an investor looking for nonrecourse financing up to 75 percent loan-to-value, what options do you really have?" Scurtis asked. "Bank financing is pretty much tied up."

CMBS lenders are increasing their South Florida foothold by venturing into markets and product types that life insurance companies avoid, Archambault said.

"The major portfolio lenders like large metropolitan assets like office towers," he said. "CMBS might go for a mid-level shopping center that has a really good rent history and cash flow but may not have the same attractiveness for a portfolio lender."


Vail

Vail, the Ackman-Ziff executive, noted he has been "pleasantly surprised" by the appetite from CMBS lenders for a West Palm Beach shopping center he is marketing that does not have a Publix-type anchor tenant.

Even with a broader scope than others, CMBS lenders are being much more conservative than during the boom era, Scurtis said. That should help keep future delinquencies down.

"Everyone has gotten a lot smarter with the way underwriting has been done," he said.

MORE OPTIONS

Mortgage real estate investment trusts, or REITs, which have been around as a high-yield investment vehicle for several decades, are another popular form of unconventional financing. Mortgage REITs function by purchasing mortgages and borrowing against them. Like CMBS, mortgage REIT spreads have come down substantially.

But mortgage REITs remain "much smaller in terms of the volume they do," according to Ezra Katz, chairman of Aztec Group, a real estate and mortgage brokerage firm based in Miami. "I suspect that will be the case going forward."

With commercial banks, life insurance firms, CMBS, mortgage REITs and private lenders, South Florida real estate owners and qualified investors now have "an incredible diversity of borrowing options," according to Matthew Adler, president and CEO of Adler Group subsidiary Adler Kawa Real Estate Advisors in Miami Beach. The lending pool has not been this deep since the onset of the recession.

Of the eight most significant deals Adler's fund has completed in the past two years for a combined $465 million in transaction value, two involved CMBS loans, he said. The rest were funded through commercial bank financing, life insurance loans or loan assumptions.

"In general, CMBS is a good option for us potentially for some deals," Adler said. "I think if all terms are equal, we would probably go a different route. It is a little more restrictive and challenging when things do happen in the course of ownership."

That lack of flexibility could deter some potential CMBS borrowers, particularly those who had bad experiences in recent years, Katz said.

"Borrowers who were active in the last 10 years and had to deal with problem situations discovered the shortfalls of the CMBS programs very quickly," he said. "Effectively, you really have no one to talk to, not like a regular bank loan. In some cases, borrowers actually defaulted so they could have someone to talk to."

CMBS MARKET

$60 billion
2013 projected sales

$230 billion
Record set in 2007

$5 billion
CMBS originated by Coral Gables-based SL Capital in the last two years

J. ALBERT DIAZ

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Those borrowers with past misgivings might be swayed by Trepp's forecast for an improved performance by existing CMBS loans in 2013. While the national CMBS delinquency rate was unchanged at 9.71 percent from November to December, Trepp predicts the rate should substantially decline in the coming months as special servicers resolve nonperforming loans and fresh CMBS deals enter the pipeline.

"CMBS under any circumstances is a mechanism that is here to stay," Katz said. "If there's a conviction by the investment community that it is being underwritten properly and can avoid a future problem, the space will continue to expand."

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