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Debt markets start off strong ahead of major refinancing pipeline

The commercial real estate debt markets are starting the year off strong ahead of another heavy year of maturities. Indeed, there is almost $120bn of CMBS loans slated for maturity, and more non-CMBS loans, and the hope is the bulk will be refinanced. A concern, however, is loans with fairly high balances and questionable performance, said Bryan Shaffer, a principal with Los Angeles-based George Smith Partners.

Even with the proliferation of mezzanine lenders, it will be difficult for borrowers who fit that profile to refinance loans. “The question is if there will be another group of lenders—port-folio, fund lenders or debt funds who can refi-nance these loans. No one can absolutely say that there won’t be hiccups in the market, but there is clearly some uncertainty,” Shaffer said.

Another concern is the CMBS market, which has seen unpredictable swings in spreads that are making it difficult for lenders to figure out where loans can be sold, Shaffer said. The CMBS land-scape has been affected by the drop in oil prices and its effect on junk bonds, he added.

“The major CMBS lenders can’t tell you where pricing will be next year and there is so much chaos in the market that it’s hard to know where the next deal is going to be priced,” Shaffer said. “The last five deals of 2015 were priced wide.

All-in pricing that would have been about 4.5% for fully leveraged properties is now closer to 5%. There’s been a 50-basis point increase in CMBS lending,” he added.

“For the most part, I have not seen borrow-ers or owners making financing decisions that are specifically tied to an expectation or fear of rate increases. But we do have a number of situations where there are defeasance penalties on loans that mature in 2016-2017 where we are frequently doing analyses for clients showing the breakeven rates to help them decide whether it makes sense from them to pay the penalty in order to refinance now,” said Scott Singer, presi-dent of New York-based The Singer & Bassuk Organization. “Many owners seem to be bas-ing their decisions on the expectation that there won’t be a dramatic rise in borrowing rates over the next 12-24 months.”