

# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

Answers Appraisers Asking **Banks** Biggest Problem  
Business Commercial Credit Dodd-Frank  
Fannie Mae Financing Investment Jobs **Market** Money  
↓ Most important word/phrase  
National Needs Property Real Estate  
Requirements



# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

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THE NATIONAL ASSOCIATION OF REALTORS®, “*The Voice for Real Estate*,” is America’s largest trade association, representing 1.0 million members involved in all aspects of the residential and commercial real estate industries.

# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

## ECONOMIC OVERVIEW

### GEORGE RATIU

Manager, Quantitative  
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The economy is off to a reasonably good start in 2013, in the wake of a moderately positive performance during 2012. The first quarter gross domestic product expanded by 2.5 percent. The year-end brought closure to several sources of uncertainty. The presidential election provided a degree of clarity over the next four year's administration. The "fiscal cliff" uncertainty was solved by allowing some provisions to revert to normal (the payroll tax returning to 6.2 percent), and allowing the "sequestration" cuts to move forward. Housing continued to rebound, with housing starts recording a 27 percent gain for the year while new home sales rose 20 percent from 2011. Existing home sales grew by 9 percent during the year, with shrinking inventories driving up prices of existing homes.

Consumer spending kept a steady pace over the year. Corporate profits reached new record highs, as companies cut expenses. Regulatory and economic uncertainties remained and the trend started in 2011 continued into 2012, with companies holding on to rising cash reserves. Private payroll employment grew by slightly more than 2 million in 2012 and is expected to gain another 2 million in 2013, leading to a decline in the unemployment rate.

Commercial real estate recorded a year of growth and expansion. Fundamentals strengthened throughout the year, with declining vacancies and rising rents. The apartment sector was the bright star, as office and industrial spaces found favorable conditions. With a strengthening foundation, investment sales found a higher ledge on their climb from the depths of the 2008-09 Great Recession.

With employment in office-centered industries rising, demand for office buildings advanced. The supply of new office space ramped up, but still fell short of demand. Vacancy rates for office properties moved toward 16 percent.

With growing international trade and a resurgent manufacturing sector, the demand for industrial space remained strong in 2012. Absorption in the industrial sector totaled 93 million square feet over the year. With supply still lagging, vacancy rates were on a downward course.

With cautious consumers keeping spending on a moderate path, the retail sector posted positive demand and a restrained supply, leading to declining vacancies and moderately growing rents.

# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

## COMMERCIAL REAL ESTATE

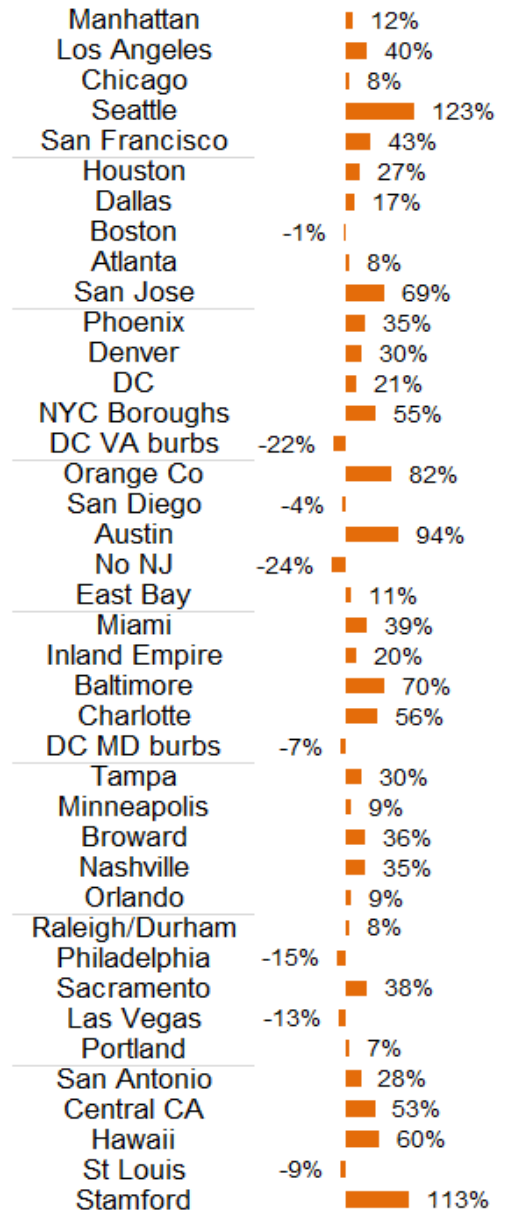
Investment activity recorded a positive 2012. Based on data from Real Capital Analytics, sales totaled \$294 billion in sales, representing a 24 percent increase from 2011. Major economic centers like Washington, D.C., New York, Boston and San Francisco remained attractive investment targets. However, the inventory of trophy properties diminished through the year, driving investors in search of properties and yields in the secondary and tertiary markets.

Based on first quarter data, all signs point to further gains in sales during 2013. Sales of major properties totaled \$72.8 billion in the first quarter 2013, a 35 percent rise from a year ago, according to Real Capital Analytics. Portfolio transactions made up a large portion of the volume. Individual property sales comprised \$40 billion, a 7.8 percent gain from the same quarter last year.

On a yearly basis, the first quarter 2013 recorded 16 individual markets with triple digit gains in sales, most of them secondary markets. Jacksonville posted the strongest sales gains, up 625.2 percent, boosted by apartment and office sales. Sales in the Virginia and Maryland suburbs of DC also jumped 295.3 percent and 199.1 percent, respectively. Other markets with noticeable investment surges were East Bay, Westchester, Kansas City, San Antonio, St. Louis, and Long Island.

Prices for commercial properties rose during the year, as cap rate compression continued. With interest rate on Treasuries below 2 percent, spreads widened, making returns on commercial properties highly attractive to investors.

### 2012 Sales Volume: YoY Change



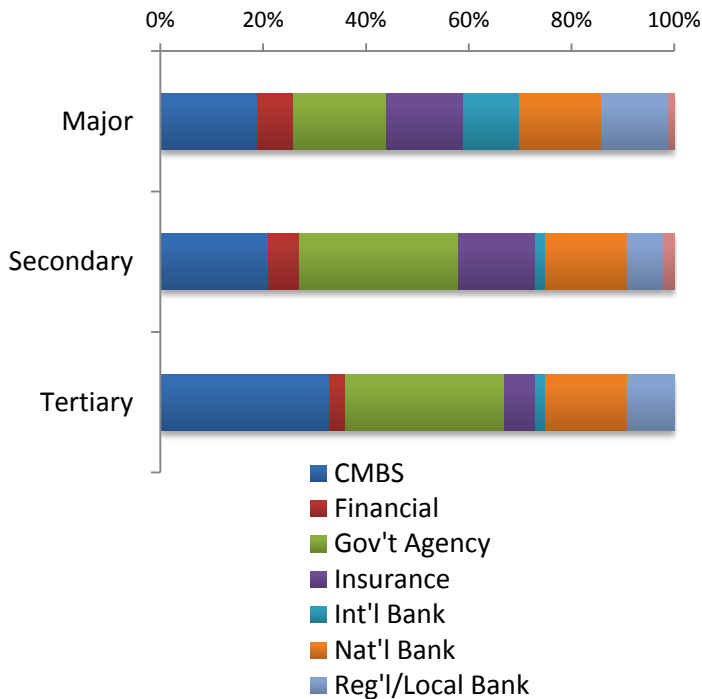
Source: Real Capital Analytics



# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

## COMMERCIAL REAL ESTATE

Lending Sources 2012 – Major Sales (\$2.5M+)



Source: Real Capital Analytics

After several years of drought, the lending spigot opened a little wider during 2012, as every lender group upped its volume. With asset valuations rising and record low interest rates, lending provided a firmer foundation for investment deals. The lending landscape became more balanced as multiple sources competed for deals—commercial banks and CMBS posted the strongest yearly growth rates, taking market share from government agencies and insurance companies.

National banks, which retreated from commercial markets in the wake of the recession, have been finding conditions favorable and re-entering the market. During 2012, national banks made up 16 percent of the market, a four percent increase from 2011, according to data from Real Capital Analytics. Regional banks also added to their portfolio of commercial real estate loans, spelling good news for properties and deals in secondary and tertiary markets.

The CMBS market regained its stride, totaling \$48 billion in new issuance during 2012 and closing in on government agencies' market share, at 22 percent. The increased level of competition among lenders became obvious, as government agencies and insurance companies—even with similar or higher commitments in 2012 as in 2011—saw their market share diminish. The retail and hotel sectors found much interest in the CMBS market, as the government agencies maintain their dominant presence in the apartment market. Office properties were of interest to most lenders, while commercial banks were dominant in the industrial sector.

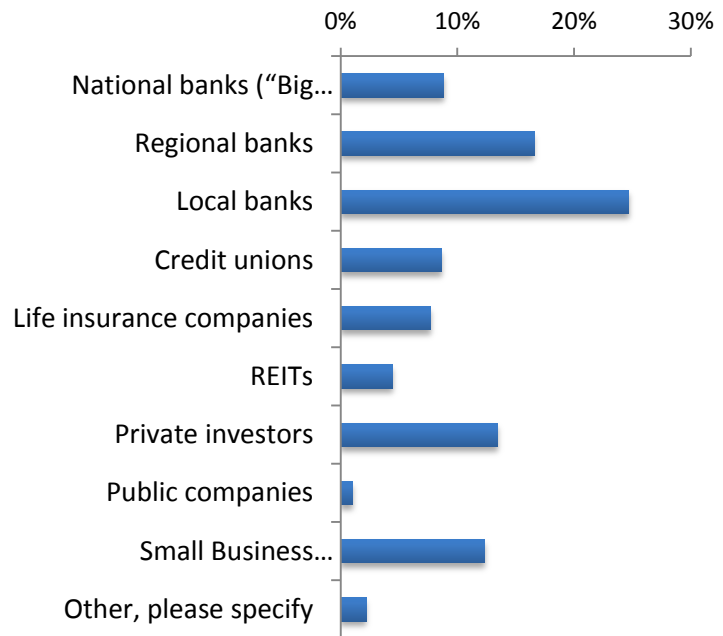
# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

## COMMERCIAL REAL ESTATE

The bifurcation in capital availability along property values continued in 2012. As data from Real Capital Analytics indicates, for deals valued at \$2.5 million and above, CMBS issuers and government agencies remained dominant players in secondary and tertiary markets, followed by national banks, insurance companies and regional banks. Meanwhile, for transactions below the \$2.0 million mark, private investors, along with local and regional banks continued to serve as the main conduits for capital liquidity.

Against this backdrop, the National Association of REALTORS® conducted a national survey of commercial real estate members, focused on lending conditions.

Lending sources 2012 – REALTOR® CRE Sales



Source: National Association of REALTORS®

# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

## SURVEY RESULTS: Executive Summary

For most commercial REALTORS®, investment activity registered slight improvements during 2012. The year posted gains in transactions of office properties, which took the top spot. Industrial, multifamily and retail/land deals followed close behind.

In terms of valuation, most properties exchanged hands at the \$2 million mark and below. The figures indicate that a significant segment of the commercial market is flying below the radar of the established data aggregators, such as Real Capital Analytics. In addition, commercial REALTORS® handled a wide range of properties, from free standing buildings and mixed use, to churches, restaurants and self storage.

The survey points to the fact that capital availability has shown signs of easing, but tight lending standards remain the norm in many markets. In 2012, only 31 percent of respondents indicated that capital availability had eased, compared with 70 percent who reported shrinking or unchanged availability. Over the same period, 72 percent of commercial REALTORS® indicated that loan underwriting standards are just as stringent or tighter than in 2011.

Cash remained a dominant source of financing, accounting for 33 percent of transactions, an increase from the 27 percent figure in 2011.

The charts below show notable trends related to the commercial lending environment. Respondent quotes are included in the report to provide additional texture and context to market changes.

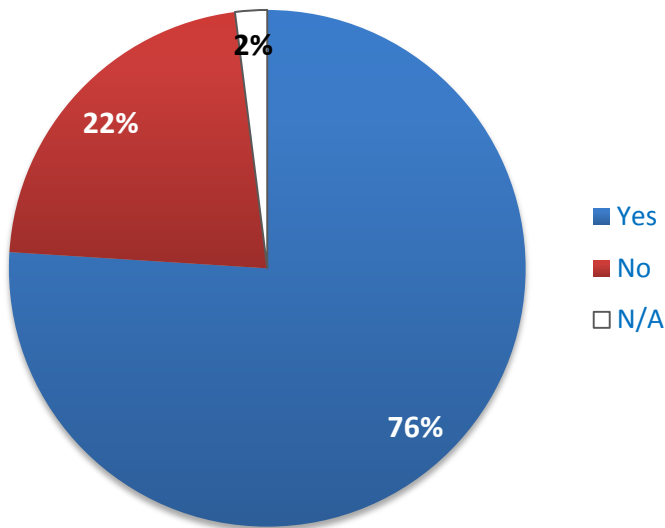
### Survey Highlights

- 76% of respondents closed deals in 2012
- 85% of sales were valued at or below \$2 million
- Sales composition:
  - Office - 20%
  - Industrial - 17%
  - Multifamily - 14%
  - Retail - 12%
  - Land - 12%
  - Hotel - 3%
  - Other - 23%
- Capital availability tighter in 38% of markets
- Top sources of capital:
  - Local banks – 25%
  - Regional banks – 17%
  - Private – 13%
  - SBA – 12%
  - National banks – 9%
  - Credit Unions – 9%
- Cash comprised 33% of all transactions
- 52% of sales failed due to lack of financing
- Regulations and regulatory uncertainty were deemed to cause lack of capital by 54% of respondents
- Top recommendations to improve commercial lending conditions:
  - No action – 35%
  - SBA Program – 33%
  - Credit Union lending – 28%

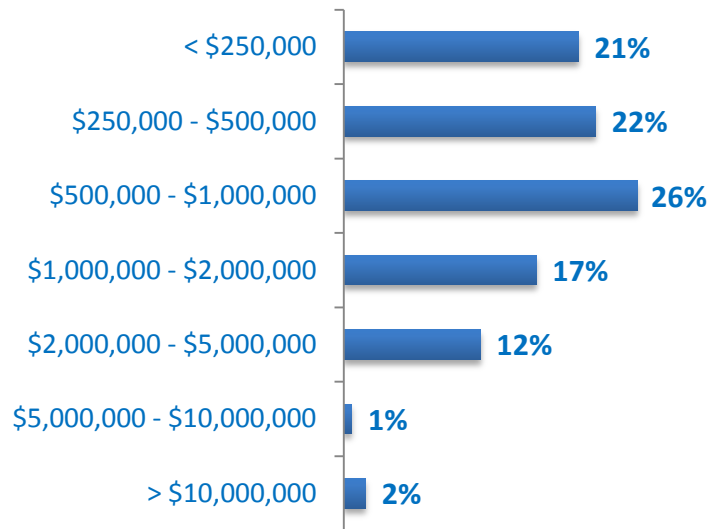
# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

## SURVEY RESULTS: Market Environment

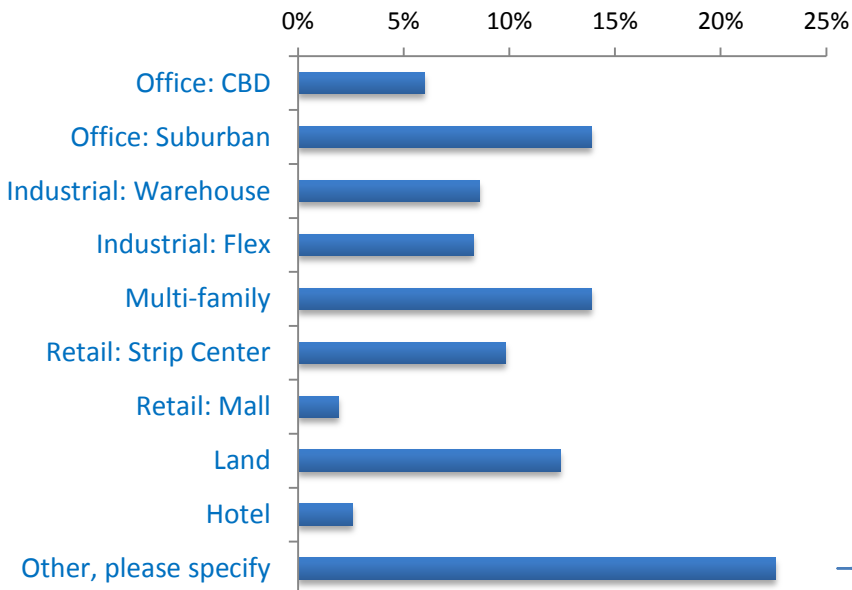
Sale transaction during past 12 months



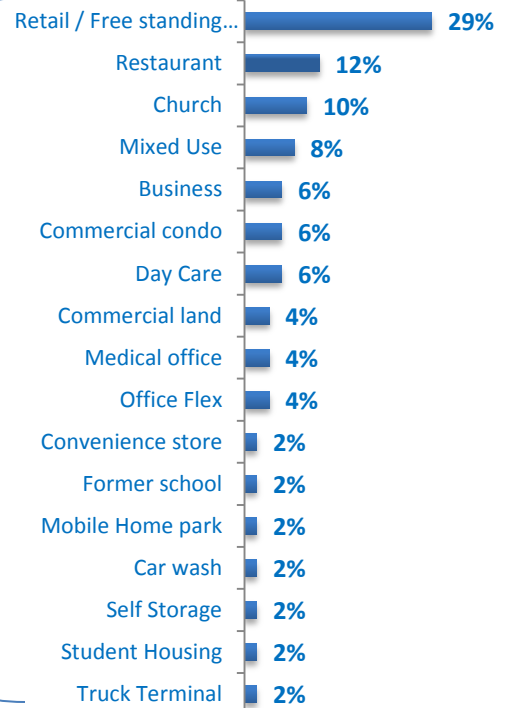
Value of most recent sales transaction



Property type of most recent sales transaction



Other, please specify

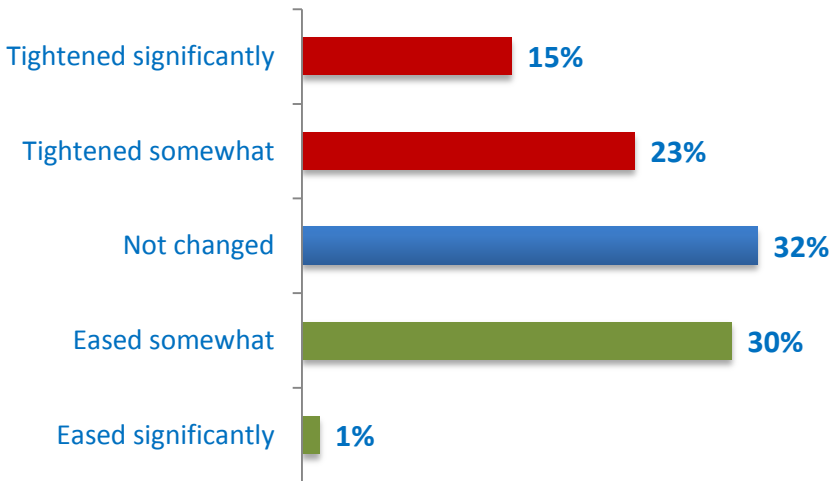




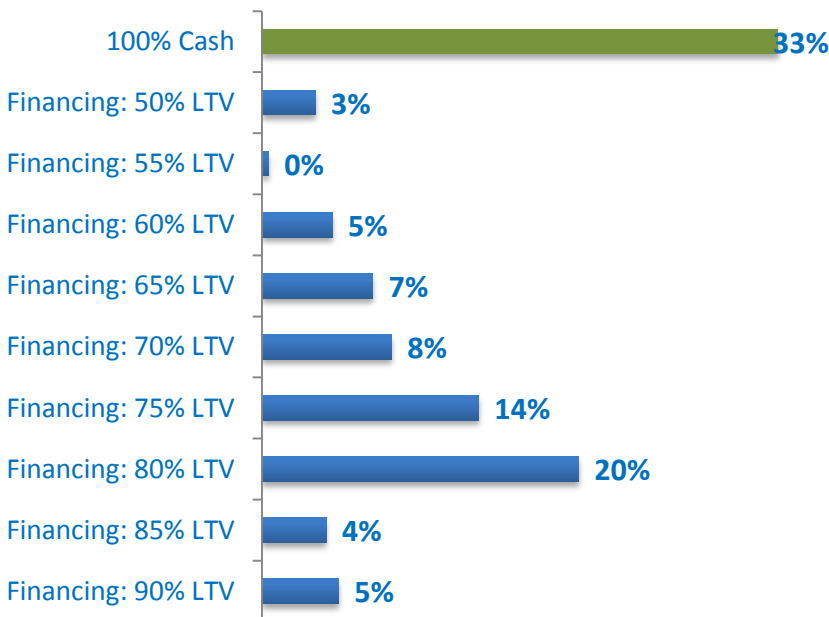
# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

## SURVEY RESULTS: Lending Environment

### Capital Availability



### CRE Financial Terms



All the difficulties encountered by borrowers have encouraged sellers to participate more in financing their real estate or businesses. Some of the answers given here did not ask what role seller financing plays in the sale of commercial properties. When properly explained to a seller the advantages of owner participation, whether by a first mortgage, or a second or in a way that would resemble a wrap-around mortgage, what we call a "lease-purchase option", most owners agree to participate. In most cases the explanation involves the concept of yield, learned in the CCIM courses. This concept also makes easier to sell because it helps buyers with lowering their down payment requirements. We have succeeded in getting over 70% of sellers, who are in a position to participate, to go along with participating and all those transactions have been very successful.

– Massachusetts

Cash seems to be available for lending, but lending requirements have not eased. There was a time when cash was not available.

– Oklahoma

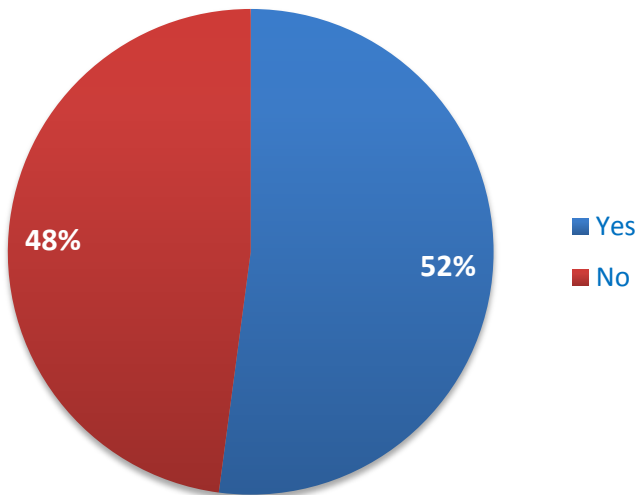
Some banks are still not lending to investors, only owner-occupied properties.

– New York

# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

## SURVEY RESULTS: Lending Environment

Sales transaction failed due to lack of financing?



*Low appraisals are particularly hard on refinancing.*  
– Michigan

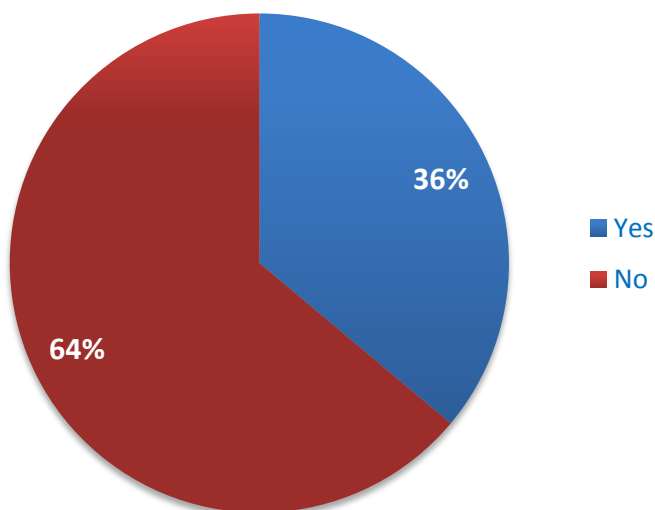
*Appraisers (and their over-regulated industry) and over-regulation in general are the biggest problem.*  
– Oregon

*Appraisals are the biggest issue and are being manipulated by banks to their advantage.*  
– North Carolina

*Appraisers are killing us too because they are appraising properties too low, making it harder to get a loan.*  
– South Carolina

*Appraisers are still gun shy.*  
– California

Sales transaction failed due to appraisals?



*Banks are to blame, not appraisers.*  
– Ohio

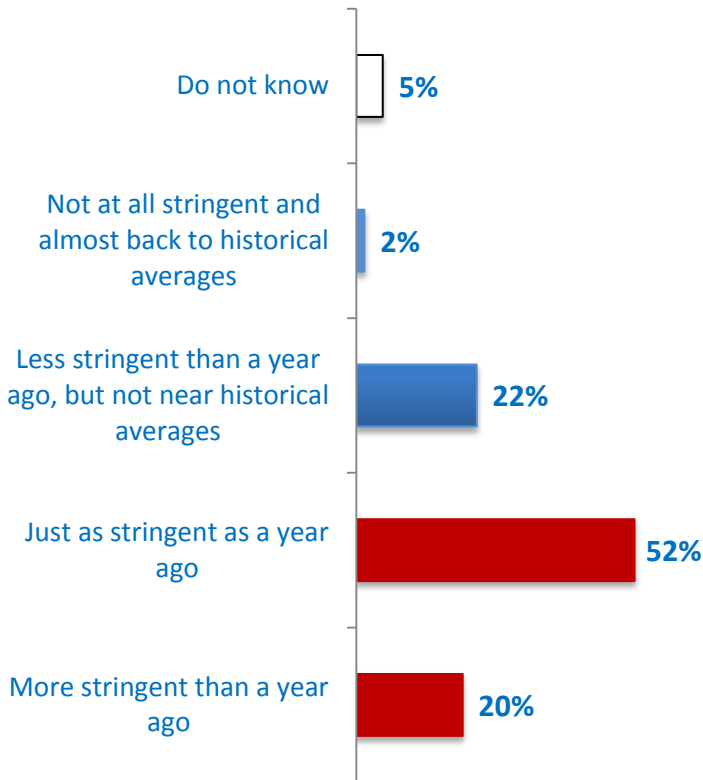
*Deals do not fail because of an appraiser. Deals fail when the property value does not meet the lenders standards.*  
– Florida

*Socialized Appraisal Management Companies (AMC) have created appraisals of poor quality because many of the appraisers volume are down and they have signed up in areas out of their normal market range and are willing to accept a low fee. Hence they spend less time in research of data and have less knowledge fast moving market changes. [...]*  
– Mississippi

# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

## SURVEY RESULTS: Lending Environment

Loan underwriters / lending committees' financing standards compared with year ago



Avg. Debt Service Coverage Ratio = 1.4

*Lenders are Red Lining low income areas, out of State buyers and are "cherry picking" only the best deals. Recently a MF property cash flowed by 1.6 DCR, appraised above asking price, and Fannie Mae turned it down at the 11th hour upon final underwriter inspection due to red lining in my opinion. The property had passed all third party unit inspections, exterior inspections, surveys, environmental, etc.*

– Tennessee

*Commercial lending is at its worst right now. I had an apartment owner who has been in the business for more than 20 years with great credit. He had a balloon on his 200-plus units. He could not refi his properties. I finally sent him to a local bank and he got his property refinanced for 20 years locked rate, no balloon. It cost him \$47,000.00 for a \$2 million plus loan! That is out whack! It was the best deal he could find.*

– Ohio

*Lack of common sense underwriting. A multi-family in distress with the Court should be able to be financed with little to no historical cash flow records. Currently if in bankruptcy or with a receiver there is no historical financial information...conventional lending not an option. Instead of having to pay cash to acquire the property a borrower could leverage their liquidity to acquire, rehab or renovate, refinance once property stabilized. This would permit a lot more buyers into the market. – Ohio Lenders are charging commercial borrowers too high of an interest rate to borrow money, with too many ways to increase the interest rates in the future.*

– Iowa

*Lending to users rather than investors is still substantially curtailed with strict underwriting guidelines and appraisal challenges.*

– Pennsylvania

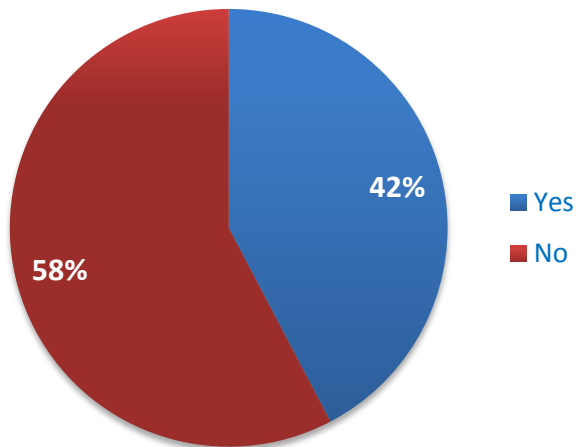
*Required mixed use zoning cannot get acceptable financing, if at all.*

– Colorado

# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

## SURVEY RESULTS: Lending Environment

Clients failed to complete a re-financing transaction during the past 12 months



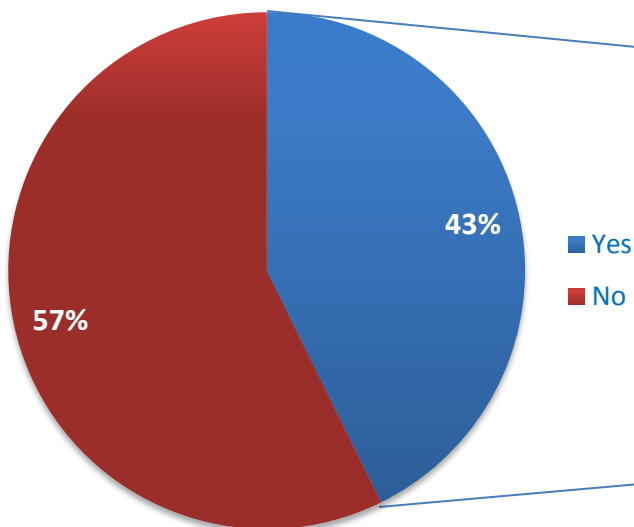
*The "servicers" are the biggest problem with the backlog and the prevention of resolution to the underwater commercial loans. The system is designed to favor the servicer whose best interest is served if the process continues indefinitely. They get monthly servicing fees which terminate if the asset is sold or restructured.*

– Florida

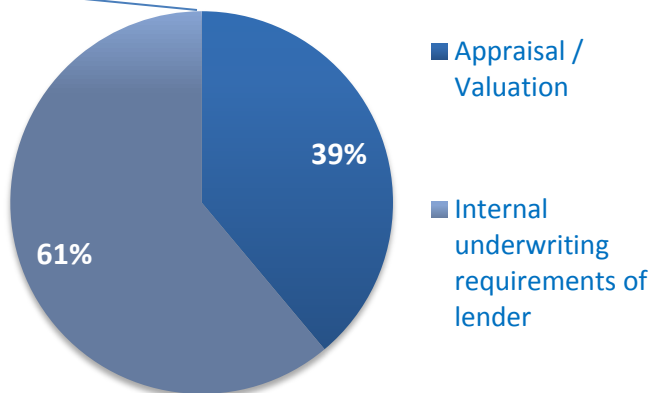
*Current lenders need to work with current borrowers that are paying their loans but that cannot refinance due to the value and current market conditions instead of calling the notes and taking back the asset. There are many borrowers that are paying even though the property is undervalued.*

– Arizona

With properties with re-financing issues, if owners provided an existing/new property lease with NOI at pre-2006 levels, did the property still fail to secure re-financing?



If "Yes", was reason primarily due to:





# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

## SURVEY RESULTS: Lending Environment

*Bank underwriting standards are overly strict making loans very difficult obtain.*

– Pennsylvania

*Most banks are not lending on large projects at all. When they do lend it's with a heavy hand in the deal basically making it impossible for the owner to make a profit. Many of the regulations are underhanded and driven by big government. In order to support a free market you can't keep taxing the corporation out of house and business and this is exactly what is happening. This is what stifle's the growth of jobs and economy. You want to bring prosperity back to this country stop making them pay so much to get the loan. Banks are not being regulated they are becoming socialistic because of issues they caused.*

– Texas

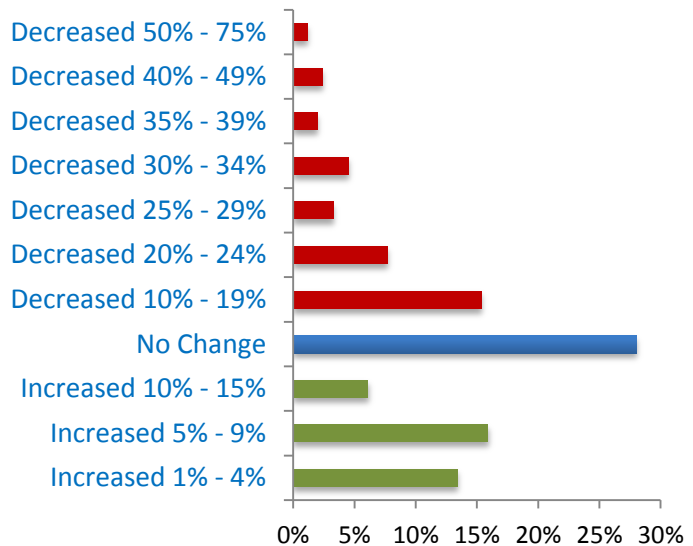
*Waiver of all individual rights of loan guarantors and additional collateral requirements are allowing banks to cross the lines of extortion. The playing field needs to be fair. The banks are acting as if they are untouchable and bringing on many of the problems themselves. The trust level of investors with the financial institutions is at an all-time low and for very good reasons. Until legislation is put in place to protect the commercial loan guarantor and not allow the banks to take away all defenses of the guarantors against any and all legal and illegal activities of the banks, this market will be in jeopardy.*

– California

*Very frustrating working with any bank. Cancels the majority of our transactions we get to PA.*

– Minnesota

Change in net operating income (\$/SF) of sold/leased properties from the 2007 to 2012



*The borrowers' global cash flow when underwriting loans seem to be the most important aspect when dealing with banks.*

– California

*Most banks we deal with only want owner operator user loans and shy away from investment property which is our biggest challenge.*

– Maryland

*The banks in our area will not loan any money on real estate because of the uncertainty of value of the property.*

– Georgia

*Banks have increased the minimum qualifications to the point that none of my buyers have been able to obtain a commercial loan in 4 years.*

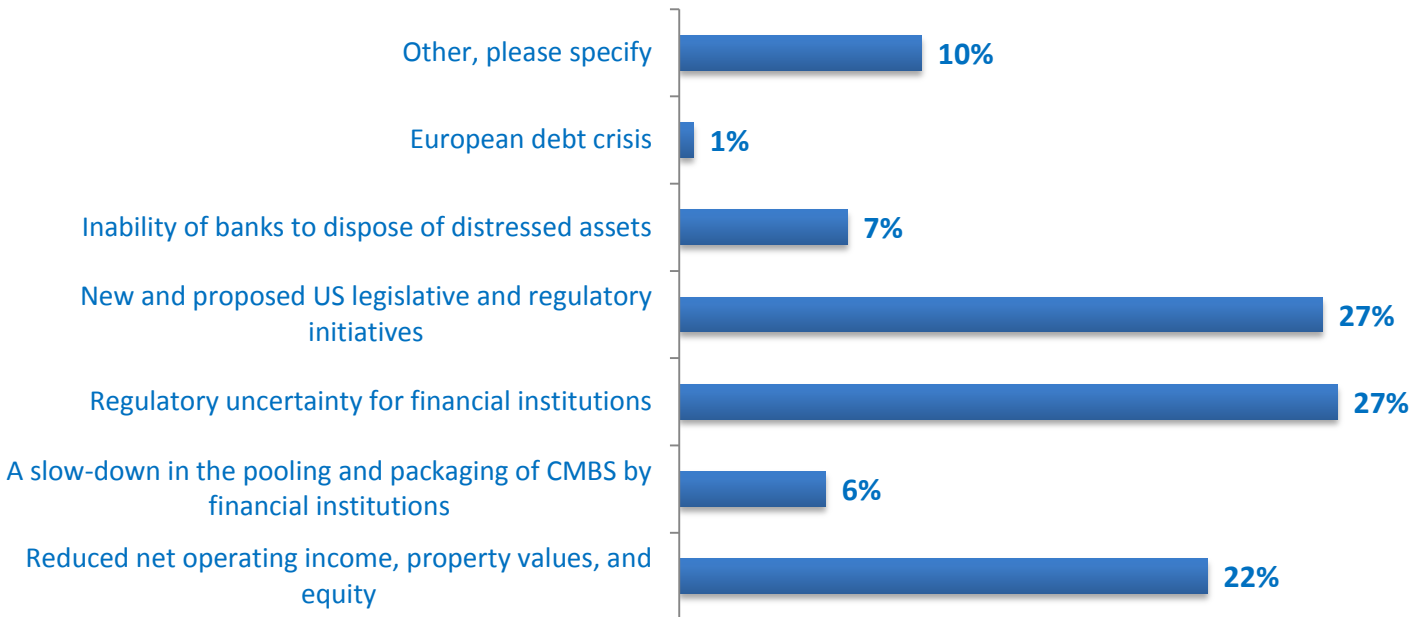
– Texas



# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

## SURVEY RESULTS: Lending Environment

The most relevant cause for lack of sufficient bank capital available for commercial lending



*Problems tend to be at the lower end of the economic scale and there are no lenders focused on that market. With the demise of "local" banking and the community savings and loan there is no dependable place to go for commercial financing below \$5,000,000. – Florida*

*Availability of the lending capital, as a whole, has been impacted by all of the above. – California*

*Banks' ridiculous appraisal process and appraised value. – Illinois*

*Regulations, huge supplies of commercial REO, vacancy and reduced NOI. – Mississippi*

*Lack of confidence in commercial real estate markets. – Illinois*

*Sufficient bank capital is available to well qualified borrowers. – Arizona*

*Multifamily debt easily available with great terms via Freddie/Fannie. – Florida*

*I do not see any problem in financing being available. – California*

*A combination of slowdown in pooling and packaging and regulation. – Arizona*

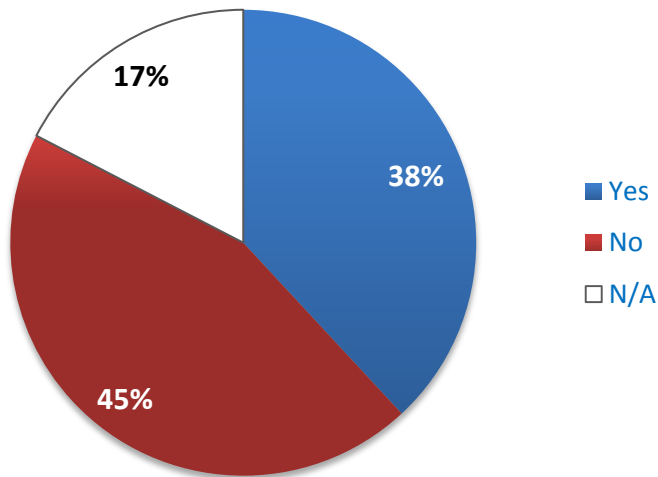
*Increased capital requirements if the bank makes small loans. – Illinois*

*Lack of credit worthy applicants/buyers. – Kentucky*

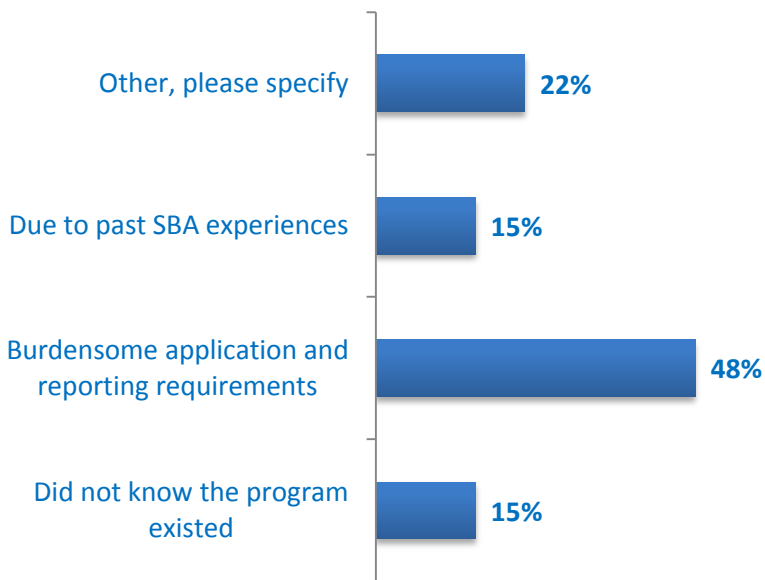
# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

## SURVEY RESULTS: Small Business Administration Loans

Have your clients used/plan to use the Small Business Administration (SBA) commercial refinance program?



If "No", why not?



*"The lack of approvals on SBA business lending for newer businesses has seriously restricted job growth, occupancy and absorption rates in our community. More funding and less stringent underwriting are necessary in order to encourage growth and drive demand for capital goods."*

- Iowa

*Mostly cash buyers due to a shortage of developed lots.*

*Better deals out there and I don't deal with smaller loans or mom and pop deals.*

*Other sources were adequate.*

*Cost and documentation and 2 year standby from seller for secondary financing.*

*SBA is very slow.*

*Not applicable. SBA is for user properties not investment properties*

*Certain programs limited to certain values - ours didn't fit - either too large or too small.*

*Non-profit buyers usually have grant funding.*

*Occupancy requirements*

*Had strong banking relationship in place.*

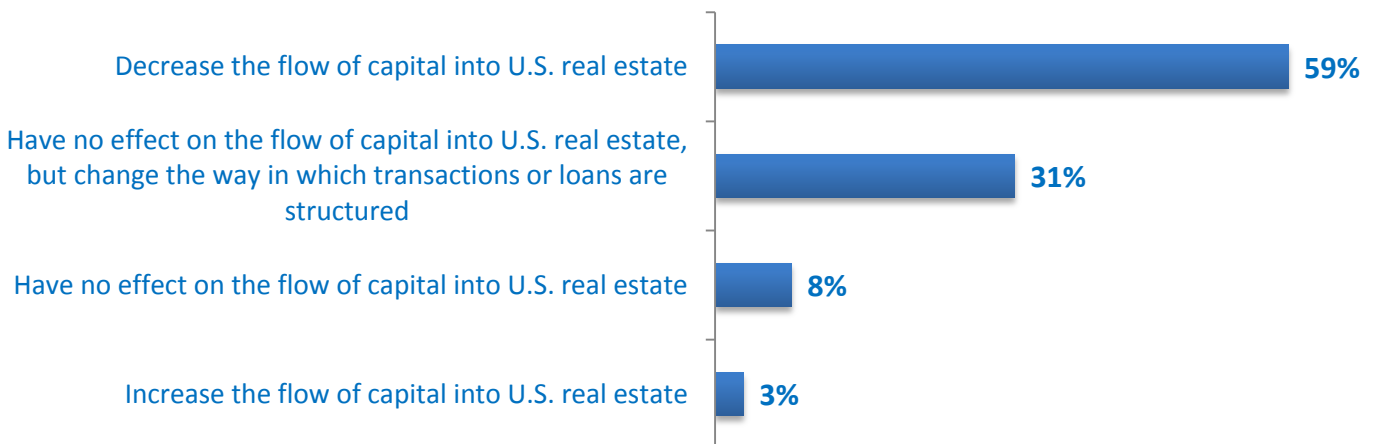
# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

## SURVEY RESULTS: Legislative/Regulatory Issues

### Most Important Regulations in Order of Impact Upon CRE Lending

- 1. Inconsistent regulatory guidance** (Commercial loan workouts/extensions)
- 2. Risk retention** (Dodd-Frank Act: banks that package commercial loans required to keep 5% of the credit risk on their balance sheets)
- 3. Lease accounting** (FASB proposed accounting rule that capitalizes real estate leases onto company balance sheets)
- 4. Basel III** (Higher capital standards for banks to boost common equity requirements to 7% by 2019)
- 5. Registration of investment advisors** (Eliminate certain exemptions from the law while requiring advisors to real estate private equity funds and other private funds to register with the SEC)
- 6. Volcker rule** (Nonbank financial companies supervised by the Federal Reserve that engage in proprietary trading—or acquire ownership in or sponsor a hedge fund or private equity fund—would be subject to additional capital requirements and quantitative limits as determined by the Fed and other banking agencies)
- 7. OTC derivatives reform** (Federal regulation of over-the-counter (OTC) derivatives)

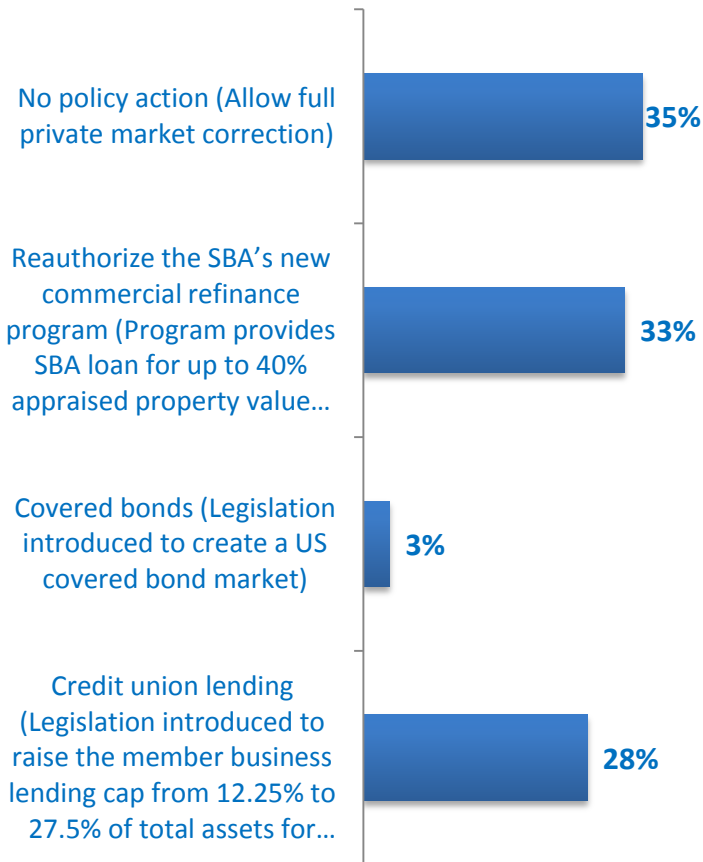
### Impacts of new/proposed U.S. legislative and regulatory initiatives



# COMMERCIAL REAL ESTATE 2013 LENDING SURVEY

## SURVEY RESULTS: Legislative/Regulatory Issues

### The most important proposed policy priority needed to improve commercial lending conditions



*A major issue in lending is the economy and the economy will not get better quickly with the adverse positions of the federal government toward business and success of businesses. If you take a risk and are willing to work hard, this federal administration punishes and degrades you if you are successful.*

– Illinois

*Borrowers need regulations and down payments relaxed not tightened. Need to find a way to do this*

– Oregon

*I'm a "free market" supporter and believe regulations are plenty but the ability and understanding of the very government that put the policies in place have failed miserably in their ability to monitor and enforce them. To make it worse, that same government with heavy hands that gave my tax dollar away continues to make policies that help their own self-interest and not policies that power the engines of America - entrepreneurs and risk takers.*

– Indiana

*The single most important factor that has and will have a dramatic effect on the Commercial Real Estate Market and all real estate markets is the artificially low rates that the government is allowing to occur and the overall monetary policy of the Federal Reserve. Although these are currently positive programs, they will have drastically negative consequences in the future when the ability to keep rates low subsides.*

– Virginia

*If the Federal government would apply the same scrutiny and review of their own budget as they do with our market, the free market would allow the real estate market to recover. The National Debt is a joke. The weakness remaining in our market is due to the weakness demonstrated by our national leadership.*

– South Carolina





## NATIONAL ASSOCIATION OF REALTORS® RESEARCH DIVISION

The Research Division of the NATIONAL ASSOCIATION of REALTORS® provides research products focused on commercial real estate markets:

- **Expectations and Market Realities in Real Estate 2013**, an annual economic and real estate outlook report produced jointly with the Real Estate Research Corporation and Deloitte
- **Commercial Real Estate Outlook**, a quarterly report forecasting commercial market fundamentals.
- **Commercial Real Estate Quarterly Market Survey**, a quarterly assessment of commercial leasing and sales trends in REALTOR® markets.
- **Commercial Member Profile**, an annual survey detailing the business and demographic characteristics of commercial members.

Additionally, NAR Research examines how changes in the economy affect the commercial real estate business, and evaluates regulatory and legislative policy proposals for their impact on REALTORS®, their clients and America's property owners.

If you have questions or comments regarding this report or any other commercial real estate research, contact George Ratiu, Manager, Quantitative & Commercial Research, at [gratiu@realtors.org](mailto:gratiu@realtors.org).

To find out about other products from NAR's Research Division, visit [www.REALTOR.org/research-and-statistics](http://www.REALTOR.org/research-and-statistics).

### METHODOLOGY

In April 2013, NAR invited a random sample of 48,000 REALTORS with an interest in commercial real estate to fill out an online survey. A total of 451 responses were received for an overall response rate of 0.9 percent.