

## THE NORTHEAST LENDING MARKET

David Ross, a senior director with Tremont Realty Capital, answers NREB's lending questions.

**NREB:** What loan products are particularly popular right now?

**ROSS:** The loan product that is particularly popular right now with our clients is our high leverage bridge loan. In addition, we are seeing much more activity for our high leverage permanent loans (90 percent, 10-year fixed-rate loans).

**NREB:** What are the latest trends in real estate financing?

**ROSS:** The latest trends in real estate financing include borrowers having more and more choices when it comes to financing their real estate projects. The list of capital sources continues to expand and includes hedge funds, opportunity funds, pension funds, life companies, equity funds, banks, finance companies, high net-worth individuals, credit companies, etc. In order to access that capital, a borrower should engage a knowledgeable advisor.

**NREB:** How does lending in the Northeast compare to lending in other markets?

**ROSS:** In comparison to other markets, the Northeast is a highly competitive market from a capital perspective. There are plenty of banks, Wall Street lenders and funds that compete to be here.

**NREB:** What geographical markets of the Northeast are hot right now? Which ones are struggling?

**ROSS:** The geographical markets of the Northeast that are hot right now vary by product type. However, New York and Boston are both very hot in the condominium sector. Boston's office market is lagging a bit, but the trends are good.

**NREB:** What makes financing in one multifamily market better than another?

**ROSS:** The short answer to what makes financing in one multifamily market better than another is demand. Demand must meet or exceed supply to make the underlying multifamily projects viable. While a particular property may be in equilibrium due to a lower cost basis or better location, lenders want to know that the market, in general is balanced and heading in the right direction.

**NREB:** Where is office financing the best?

**ROSS:** Office financing is situational. It is dependent upon rent roll, tenant quality and current rents relative to market rent. Very little, if any, speculative office product is being built in the Northeast today. If the market tightens up a little that may change.

**NREB:** How is retail faring in the Northeast? What do you predict for retail financing in the next year?

**ROSS:** We like retail in the Northeast. We think there will be opportunities for retail financing in both the development and acquisition of properties, as well as refinancing.

**NREB:** Where are industrial properties faring well?

**ROSS:** Industrial, like office, is situational. Around the country we evaluate industrial financing opportunities by examining the micro-market, rent roll, lease maturities and current rents relative to the market. Good industrial properties tend to be accessible to centers and have good road and rail access. Lenders like to see high bay clearance so that multiple industrial users can be accommodated by the property.

**NREB:** How is hospitality financing faring in the Northeast?

**ROSS:** As far as the hospitality sector is concerned, we all have heard that hospitality fundamentals are strengthening and the outlook is good, however, the Northeast is a sector where it pays to be very selective. Most lenders tend to want national flags and underwriting typically looks at the pre-9/11 historical operating costs.

**NREB:** Please comment on the net-lease market. How would you describe the financing of net-leased properties and what do you predict for this market?

**ROSS:** Historically, net lease properties were simple functions of tenant credit. Thus, depending on tenant's credit, mortgage financing up to 100% could be achieved. Conversely, with little or no credit, financing requires massive return and conservative LTV's. Today this market has broadened considerably via the 1030 exchange business, which has in turn expanded due to the Tenants in Common (TIC) market. TIC buyers really like single tenant buildings due to the focused nature of the credit. This phenomenon has caused a recent influx of capital into this sector.

**NREB:** How does lending right now compare this time in 2004?

**ROSS:** Compared to 2004, lenders are generally busier than they were in 2004. This seems to be driven by mere activity on the market due to improving fundamentals.

**NREB:** How do you think the lending environment will change during the second half of 2005?

**ROSS:** My expectation on whether the lending environment will change during

the second half of 2005 is that based on deals I am seeing now, the second half will be as strong, if not stronger.

**NREB:** How will changing the interest rates affect the lending environment?

**ROSS:** The rising interest rates will dampen activity, if they move materially, although I don't really foresee that in the near term.

**NREB:** What are the biggest factors affecting the real estate financing industry?

**ROSS:** In my estimation, the biggest factors affecting the real estate financing industry are interest rates, employment trends and wage trends.

**NREB:** Are there any other predictions you'd like to make regarding lending in the Northeast?

**ROSS:** As real estate capital markets continue to mature, the Northeast, like the rest of the country will enjoy greater access to more sophisticated forms of capital. Transactions larger than \$10mm will become segmented with various lenders (investors) participating in part of the capital stack. The irony is that although we have fewer banks than we did 10 years ago, real estate borrowers actually have many more options for their real estate capital needs.