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## Alternative Lending Market Is No Fad

The rise in the number of alternative lending vehicles is part of a long-term evolution in commercial real estate financing, according to veteran mortgage executive Jack Taylor.

Speaking at a seminar on the rise in alternative lending sponsored by the Commercial Real Estate Finance Council in New York, Taylor said that the growth of the sector was due to the strong demand for debt financing at a time when banks and CMBS programs were being squeezed by regulatory pressure and the influx of foreign capital looking to invest in U.S. real estate. He described the developments in the debt markets as a "slow-moving structural arbitrage," saying, "It's a terrific time to be an investor in commercial real estate debt in the U.S."



Taylor is the global head of the commercial real estate platform at alternative investment manager Pine River Capital Management, which primarily invests in debt on transitional properties. Previously, he had senior roles in the debt platforms at Prudential Real Estate Investors (now PGIM) and several Wall Street banks.

New regulations include higher capital charges for construction and redevelopment loans or requiring CMBS lenders to hold 5 percent of bonds they sell in securitizations. Plus, regulators are more active in warning banks when their commercial portfolios grow. In the second quarter of 2016, banks' commercial mortgage exposure increased by \$36.1 billion to \$1.1 billion, while CMBS holdings declined by \$20.9 billion as more loans matured than were securitized, according to the Mortgage Bankers Association. CMBS issuance in the first half declined to \$27.3 billion, down from \$51.3 billion in the first half of 2015, according to the MBA.

The upshot is that CMBS programs are struggling, for a host of reasons. And while commercial banks generally continue to be active lenders, newly enacted regulations aimed at preventing them from taking excessive risks have had the effect of curbing some lending. In some cases, that involves larger banks avoiding riskier types of loans. In other cases, small- to medium-size banks have shut off their lending spigot when concentrations of commercial mortgages rise.