

Regulatory Regime Dims the Mood in CMBS

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The mood at the Commercial Real Estate Finance Council's annual Industry Leader's Conference in Miami this week reflected nervousness as to how the market will handle regulatory changes.

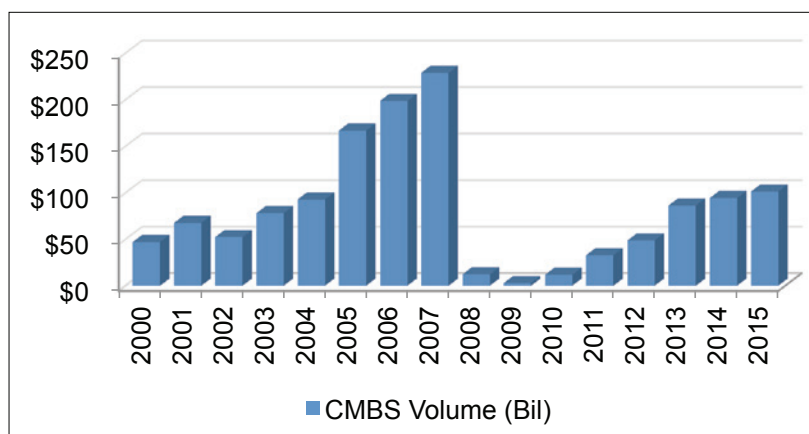
The commercial real estate market has plenty of reasons to be optimistic about 2016: The positive fundamentals driven by steady job growth and robust capital flows into the sector are producing higher rents and property values.

The optimism, however, doesn't extend into the CMBS industry, which faces a unique set of headwinds mostly stemming from new regulations coming into effect. CMBS prices fell sharply in the second half of 2015 as the industry began to wrestle with how to retrench after Dodd-Frank and other regulations go fully into effect. The mood at the Commercial Real Estate Finance Council's annual Industry Leader's Conference in Miami this week reflected nervousness as to how the market will handle the changes.

"It feels at this point that the deck is stacked against us" is how one long-term industry executive put it.

While all lending segments have already sustained the impact of a host of regulations and are bracing for more to come, CMBS is likely to feel the brunt of regulations more than other lenders. Life companies are lending at record levels. The threat of reorganization looms over the Government Sponsored Enterprises, but the change depends on the outcome of the next election, and for the time being they are also on a record pace. The agencies securitized \$61.8 billion worth of multifamily loans in 2015, up more than 20% from 2014.

CMBS Issuance 2000-2015



Source: Commercial Mortgage Alert

Commercial banks are a little more complicated, having been hit by higher capital charges for construction and redevelopment loans, which will cut into the share of many small- and midsize banks and push riskier loans to specialty lenders. Still, large banks are actively writing permanent loans, even if the market is evolving.