



APPRAISAL INSTITUTE CONFERENCE

# CAPITAL MARKETS

January 23, 2025

SPEAKER

*Jorge Gomez*

Vice President  
Debt & Equity Finance

# BIO

- In lending space since 2014
- In the capital advisory space since 2018
- Middle Market focus \$2-\$20M
- Involved in \$750M+ in transaction volume across 300+ transactions

## *Jorge Gomez*

Vice President  
Debt & Equity Finance



## *Brad Kraus*

Executive VP  
Debt & Equity Finance



# *THE EDGE* IN YOUR MARKET

For over 50 years, our clients have gotten the best of both worlds – independent counsel from trusted experts, working as part of the largest privately held commercial real estate firm on the West Coast. Today Kidder Mathews has over 900 real estate professionals and staff in 19 offices in Washington, Oregon, California, Idaho, Nevada, and Arizona.

## KM SERVICES

Debt & Equity Finance

Valuation Advisory

Commercial Brokerage

Asset Services

## COMMERCIAL BROKERAGE

*\$10B*

3-YEAR AVERAGE  
TRANSACTION VOLUME

*500+*

NO. OF BROKERS

## ASSET SERVICES

*55M+ SF*

MANAGEMENT  
PORTFOLIO SIZE

*800+*

ASSETS UNDER MANAGEMENT



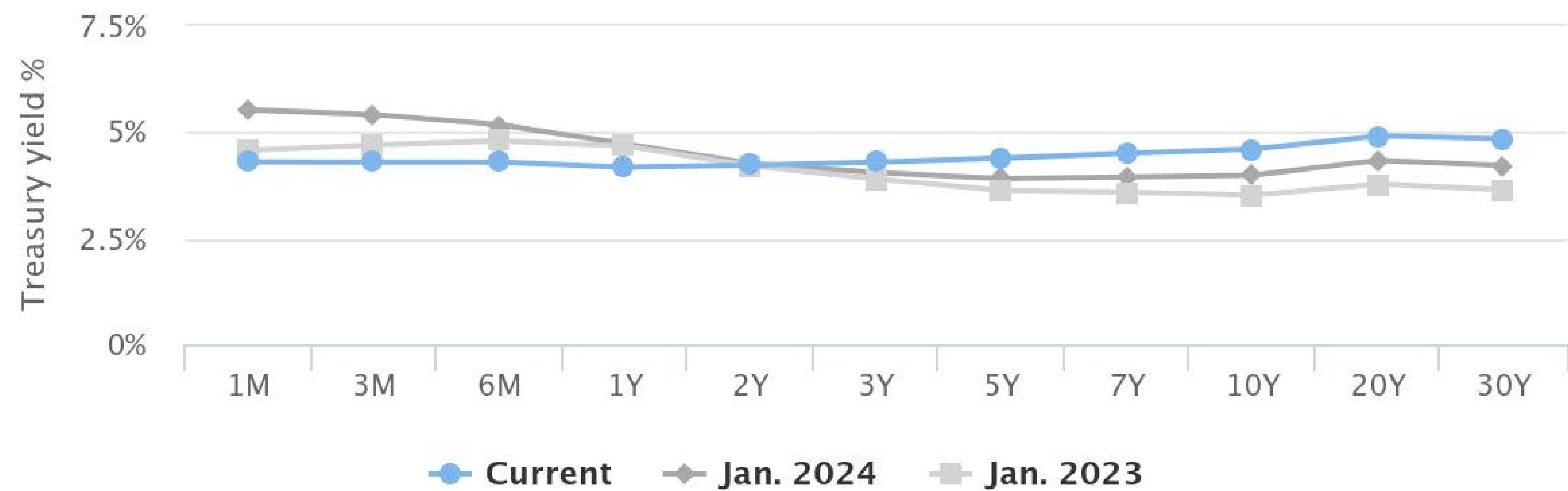
# OVERVIEW

- Interest Rates
- Origination Volume
- Loan Maturities
- Outlook



# YIELD CURVE CHART

CURRENT TREASURY YIELD CURVE



GuruFocus.com



# SOFR & 10 YEAR TREASURY RATES

FROM JAN 1, 2023 TO JAN 14, 2025



10 YEAR TREASURY YIELD: 4.68 (AS OF 2025-01-16)



Source: gurufocus

# WHAT DOES IT MEAN FOR LENDING?

- Loan sizing is cash flow constrained
  - AKA it's difficult for deals to pencil
- Preference on fixed rate loan is short term
  - 3 & 5 year terms
- Flexible & open PPP are critical
- Floating have become competitive by offering greater flexibility with similar pricing as fixed rate loans



# DSCR EXAMPLE

## GIVEN

NOI	\$200,000.00	
CAP RATE	5.00%	
VALUE	\$4,000,000.00	
MAX LOAN (LTV)	\$2,800,000.00	70%
MAX LOAN (DSCR)	\$2,483,754.89	1.25

## SIZING WITH 5% RATE

LOAN AMOUNT	\$2,484,000.00
INTEREST	5.000%
AMORTIZATION	30
MO. PAYMENT	\$13,334.65
ANNUAL DEBT SERVICE	\$160,015.79
DSCR	1.25
LTV	62%



## SIZING WITH 6% RATE

LOAN AMOUNT	\$2,224,000.00
INTEREST	6.000%
AMORTIZATION	30
MO. PAYMENT	\$13,334.00
ANNUAL DEBT SERVICE	\$160,008.04
DSCR	1.25
LTV	56%



# ORIGINATIONS & TRANSACTION VOLUME CHART

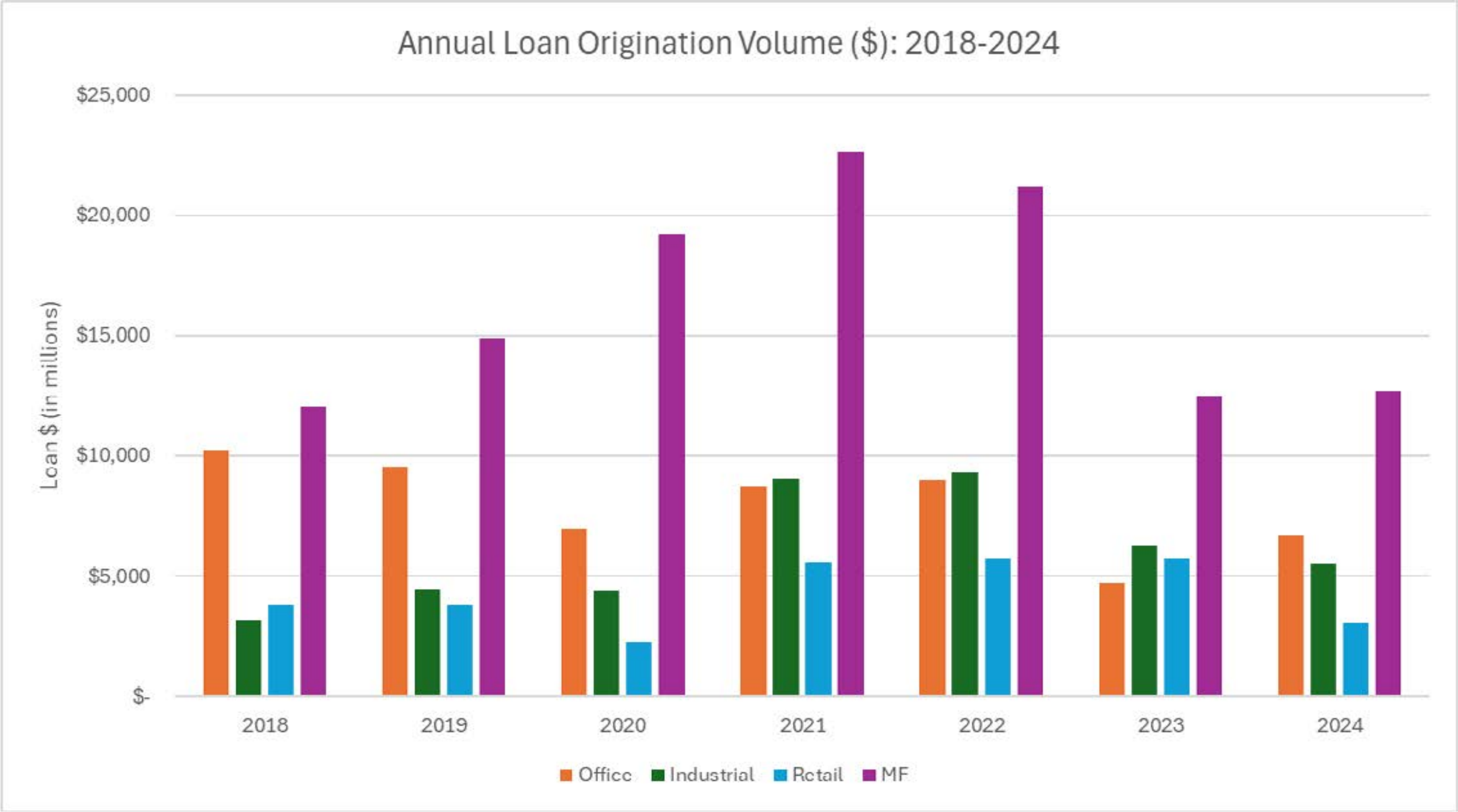
## CRE Property Sales and Borrowing

Quarterly CRE Property Sales and Mortgage Originations (\$billions)



Source: MBA | Real Capital Analytics

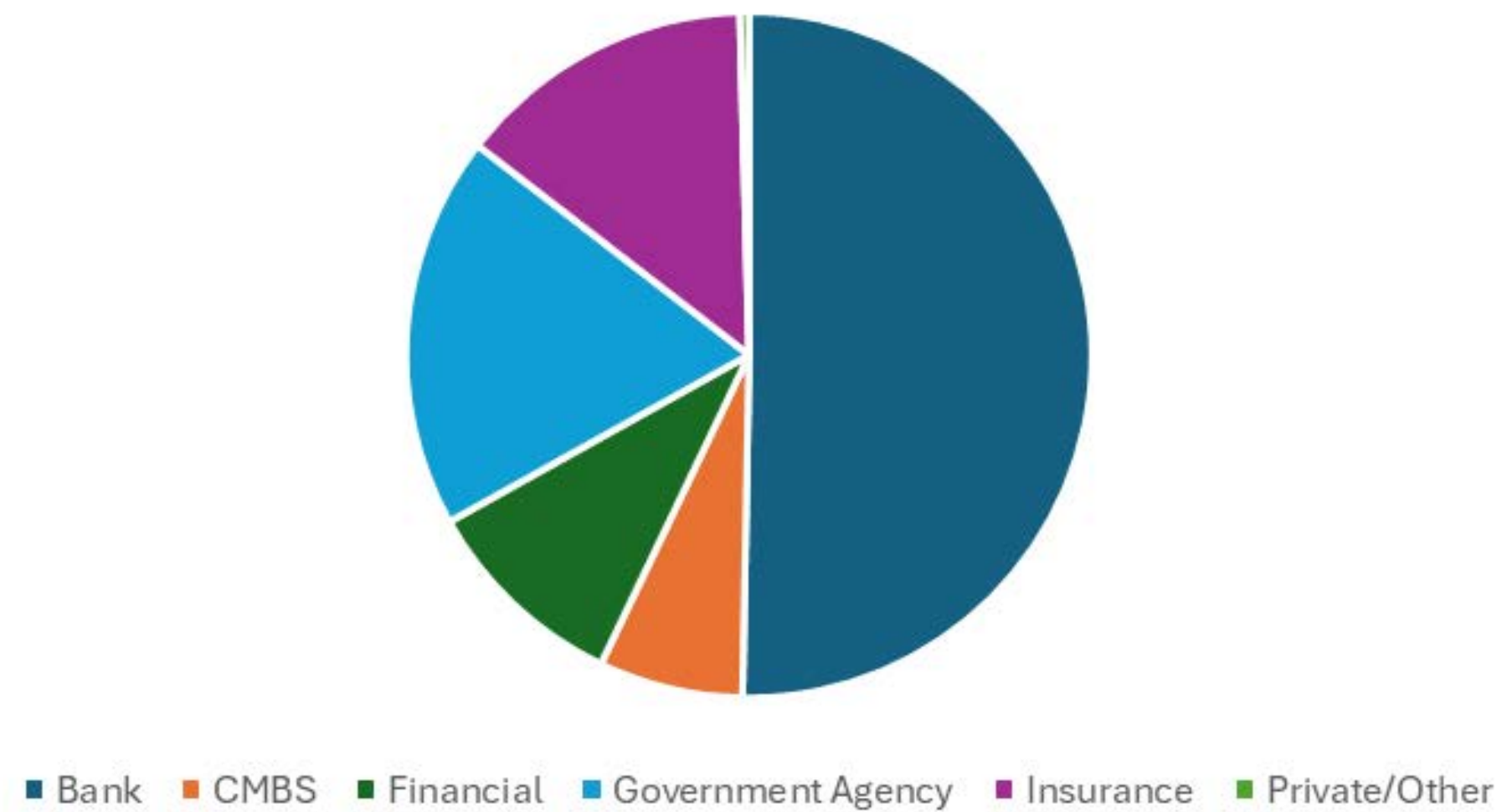
# LA & OC ORIGINATIONS



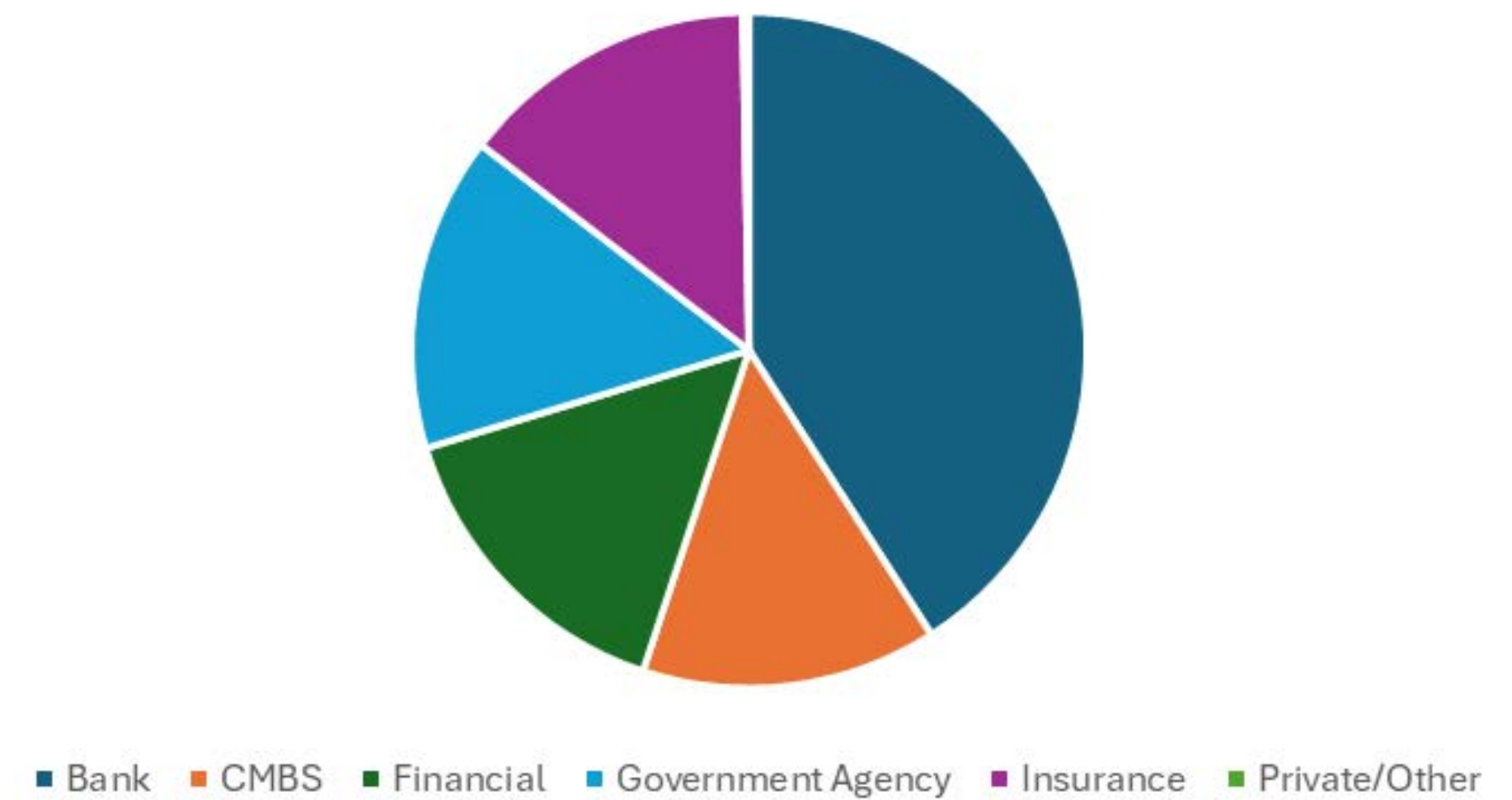


# LOAN ORIGINATIONS BY LENDER TYPE

2023 LA & OC Markets (\$26.01B total)



2024 LA & OC Markets (\$25.79B total)



# MORTGAGE BANKERS ASSOCIATION

## *ORIGINATIONS REPORTING*

	Origination Volume Index				Percent Change,		
	(2001 Avg Qtr = 100)				Year-over-year Q3	Q2-to-Q3	YTD-YTD
	Q1	Q2	Q3	Q4			
<b>TOTAL</b>							
2021	188	311	370	533	119%	19%	61%
2022	323	370	321	247	-13%	-13%	17%
2023	142	175	164	185	-49%	-7%	-5.3%
2024	143	181	260		59%	44%	22%
<b>CMBS/Conduits</b>							
2021	64	113	107	260	125%	-5%	103%
2022	100	49	31	21	-71%	-35%	-36%
2023	41	38	30	50	-5%	-21%	-40%
2024	79	96	107		260%	12%	160%
<b>Depositories</b>							
2021	175	362	547	869	232%	51%	52%
2022	515	733	684	457	25%	-7%	78%
2023	236	227	183	215	-73%	-19%	-67%
2024	138	167	310		69%	86%	-5%
<b>Life Insurance Companies</b>							
2021	252	487	501	593	175%	3%	83%
2022	456	465	292	278	-42%	-37%	-2%
2023	122	238	282	261	-4%	18%	-47%
2024	165	264	369		31%	40%	24%
<b>Fannie Mae/Freddie Mac</b>							
2021	479	439	784	797	15%	79%	-9%
2022	483	568	664	693	-15%	17%	1%
2023	414	503	484	490	-27%	-4%	-18%
2024	344	400	621		28%	55%	-3%
<b>Investor-Driven Lenders</b>							
2021	369	704	662	940	319%	-6%	234%
2022	654	788	611	380	-8%	-22%	18%
2023	219	319	278	376	-55%	-13%	-60%
2024	309	372	449		62%	21%	39%

- Up 22% year of year through Q3 2024
- CMBS comeback with 160% increase
- Decrease in bank origination
- Lifeco's continue to take market share
- Increase in debt fund originations



# KEY POINTS

- Sensitivity to interest rates
- Conservative bank underwriting
- Debt funds increasing their market share as market shifts
- CMBS market will remain strong with IO underwriting and buy down rate ability to procure greater proceeds on the 1st TD



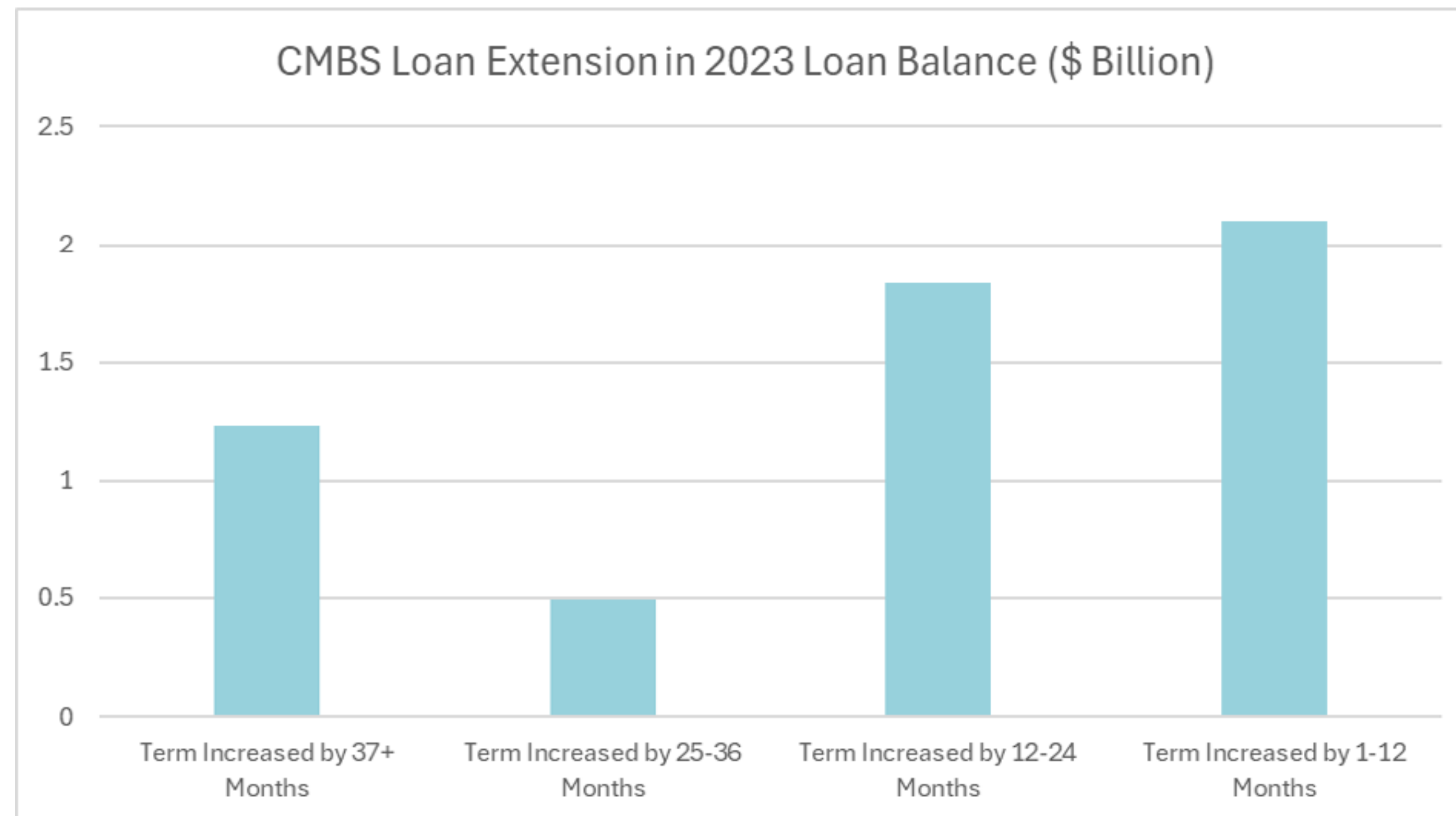
# MATURING DEBT

- Extend & Pretend~2024 maturing loans from \$659B->\$929B
- Low transaction volume
- Challenging refinance environment
  - Rates Increased
  - UW standards more conservative



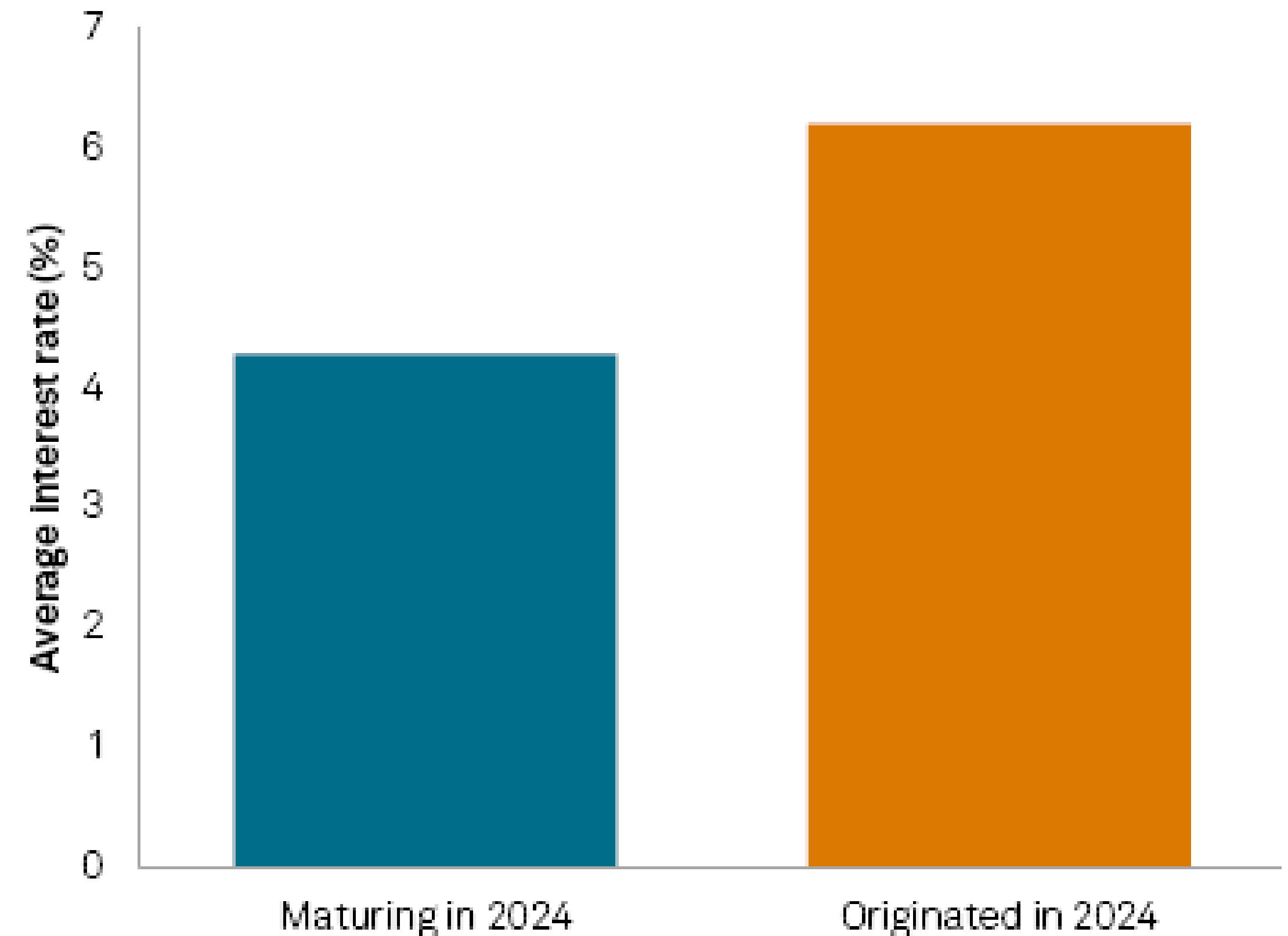
# 2023 OC & LA MARKET CMBS EXTENSION

- 33% of CMBS loan received an extension in 2023.



# TOUGH PILL

*Average interest rate on commercial real estate mortgages originated in 2024 is nearly 200 basis points higher than mortgages maturing in 2024*



Data compiled Aug. 19, 2024.

Data represents the aggregation of 3.6 million commercial real estate property mortgages, sourced from various tax filings from approximately 75% of US counties. While roughly 60% of the loans were originally missing a maturity date, we used a random forest model to impute the missing values.

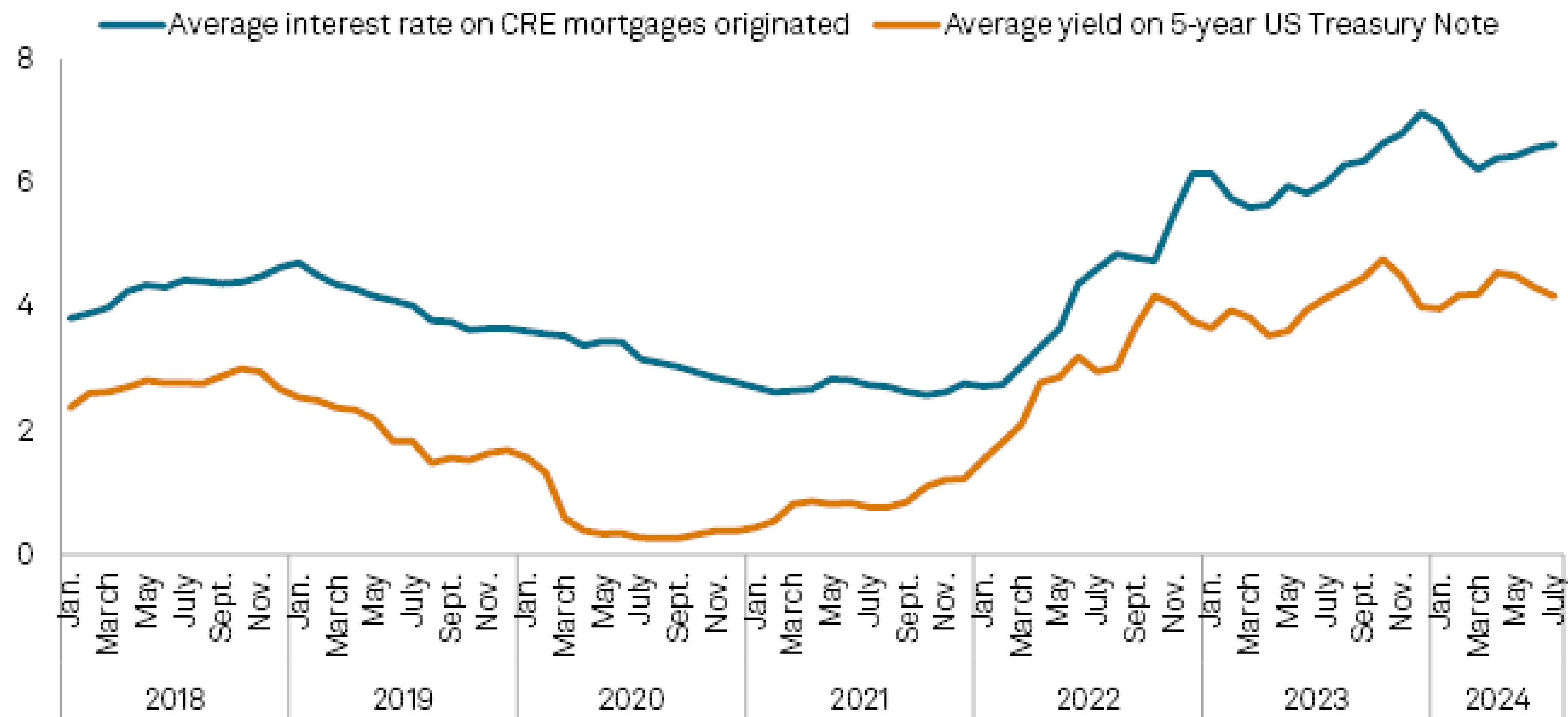
Source: S&P Global Market Intelligence.

© 2024 S&P Global.



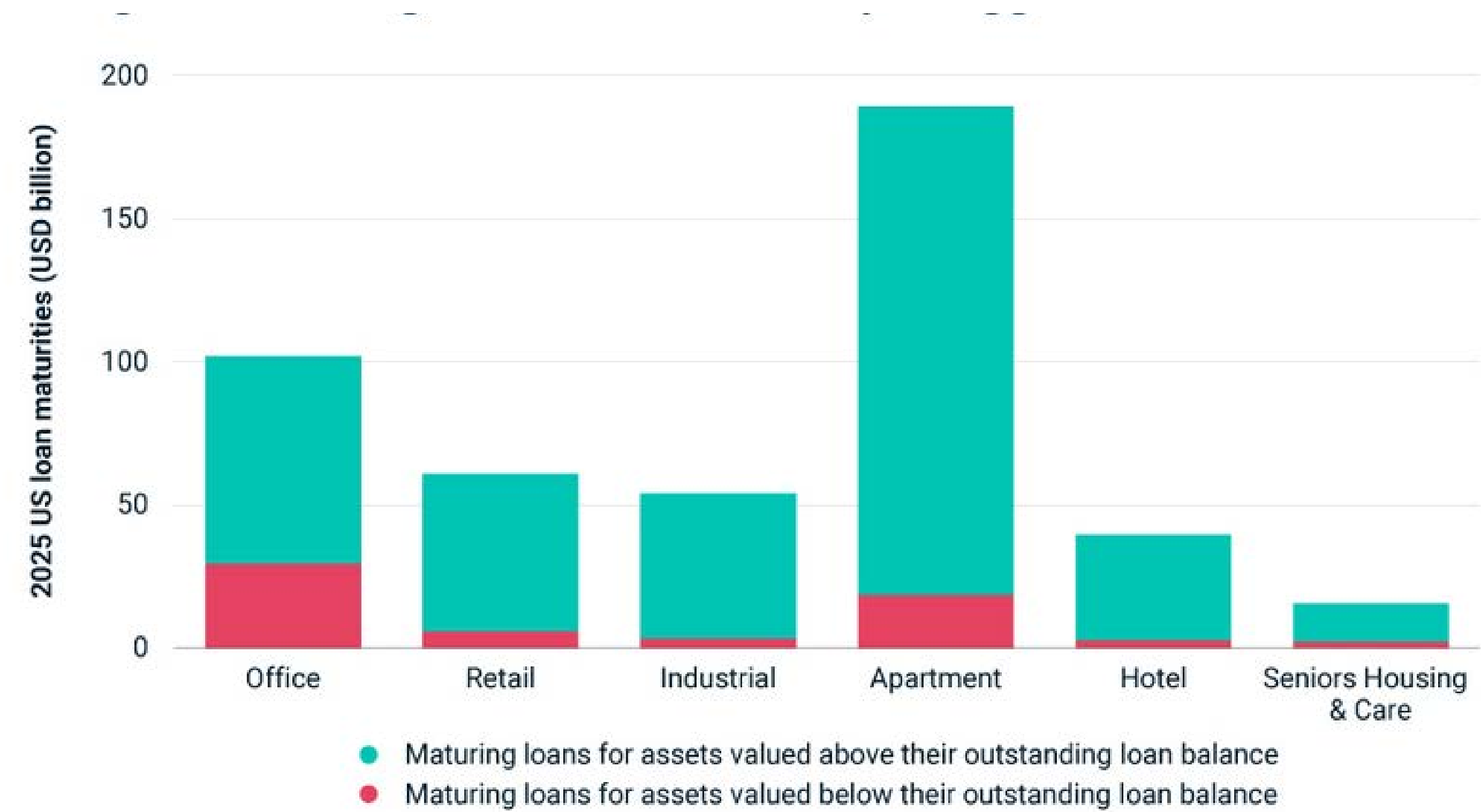
# CREDIT SPREADS

## COMMERCIAL REAL ESTATE MORTGAGE SPREADS HAVE WIDENED IN RECENT MONTHS (%)



Data compiled Aug. 19, 2024.  
Data represents the aggregation of 3.6 million commercial real estate property mortgages, sourced from various tax filings from approximately 75% of US counties.  
Source: S&P Global Market Intelligence.  
© 2024 S&P Global.

# LOAN VS ASSET VALUES



Loans outstanding as of the end of Q3 2024. Includes loans maturing in 2025 and originated to the end of Q2 2024. Data as of Dec. 6, 2024. Source: MSCI Mortgage Debt Intelligence

# TAKEAWAY

- Extend & Pretend will taper off after 3 years of elevated rates
- Paying borrowers will continue to have some leeway
- Capital structures will need to be reworked given the elevated interested rates
- New loans at current prices will be welcome by lenders



# OUTLOOK

Origination volumes to remain steady - meager 01

---

Floating Rate Loans increase (SOFR and treasury parity) 02

---

Nonbank lenders to take a larger market share 03

---

2nd position mezzanine loans increase in market share 04

---

Extend and Pretend tapers off as we're into year 3 of elevated rates 05

---



# HOPES

- Economic activity spurred by new administration increases buyer pool
- Sellers come to terms with elevated rates and capitulate to new prices
- Rates remain steady so market can have clarity.



