

Commercial Mortgage Originations— What's Hot and What's Not

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The marketplace for commercial mortgage originations continues to grow at a staggering pace. As we head into the home stretch of the year, it is time to take a look at the numbers to see where the activity and the opportunities have been.

Commercial Mortgage Originations by Mortgage Bankers

Commercial Mortgage Bankers have been on a roll for the past five years, originating commercial mortgages at an ever-expanding pace. Total originations, as tracked by the Mortgage Bankers Association, have grown at a double-digit pace since 2000. Cumulative annual commercial mortgage originations through the first half of 2000 amounted to \$25.0 billion. Originations for the first half of 2005 totaled \$75.9 billion, representing a 36% increase versus the first half of 2004. If the second half of this year continues at a similar pace, then 2005 will break the 2004 record of \$134.2 billion in total originations. Clearly these are good times in the commercial mortgage business.

Commercial Mortgage Originations by Property Type

Through the first half of 2005, multifamily loans remained the leading property type representing 36.0% of

total Commercial Mortgage Banker loan origination volume. This was followed by loans on Office properties (23.8% of total loans), Retail properties (17.4% of total loans), Industrial properties (7.1% of total loans), Hospitality properties (4.8% of total loans), and Health Care properties (1.0% of total loans). "Other" loans made up the remaining 9.9% of total loans.

A notable trend in loan activity was the resurgence of Hospitality loans (4.8% of total loans vs. 2.7% and 2.4% in 2004 and 2003 respectively).

Commercial Mortgage Originations by Investor Type

CMBS/Conduit loans continued to dominate the marketplace, representing 39.9% of all commercial mortgage loans made by Mortgage Bankers. Commercial Banks replaced Life Insurance Companies as the second leading funding source, with 21.3% of the Commercial Mortgage Banker marketplace. Life Insurance Companies fell to third place in loan activity with 18.4% of total volume. Agency (FNMA, FHLMC and FHA) loan activity remained in fourth place with 12.8% of loan volume. Pension Funds and Other lenders provided the remainder of loans, representing 1.2% and 6.5% of total loan activity respectively.

The continuing growth of Conduit loans arranged by Mortgage Bankers reflects a major on-going shift in attitude and activity within the mortgage banking

community. In the first half of 2004 Mortgage Bankers arranged \$17.5 billion of conduit loans. That amount is dwarfed by the volume from the first half of 2005 which topped \$30.2 billion. A similar trend was noted in loans arranged with Commercial Banks, which increased from \$9.3 billion in the first half of 2004 to \$16.4 billion in the first half of 2005. Life Insurance Companies showed much more sluggish growth in loan volume over the same period, with loan volume from the first half of 2004 of \$12.3 billion only slightly exceeded by 2005's volume of \$14.0 billion for the same period. Clearly the marketplace is changing.

CMBS Issuance in the US

Data compiled by Commercial Mortgage Alert also shows staggering growth continuing in the origination of domestic CMBS/Conduit loans from all sources. Through the third quarter of 2003 and 2004 Conduit loan originations totaled \$52.8 billion and \$65.1 billion respectively. This represented a 23.3% increase in year to year activity. Comparing this with year-to-date originations at the end of third quarter 2005 of \$108.5 billion shows a 66.7% year-over-year increase. Year-to-date Conduit originations have already exceeded the prior record annual originations of \$93.1 billion for the entire year 2004. Conduit lending has truly come of age.

Another indication of the bullishness of the conduit marketplace is shown in

the size of securitization pools. Where pool sizes used to average ~\$1 billion, a recent securitization by Archon and RBS/Greenwich held approximately \$4.5 billion of conduit loans.

CMBS Issuance Worldwide

Similar trends are noted in the global conduit marketplace, according to Commercial Mortgage Alert data. Through the third quarter of 2003 and 2004 worldwide Conduit loan originations totaled \$64.2 billion and \$86.1 billion respectively. This represented a 34.1% increase in year

to year activity. Comparing this with year-to-date originations at the end of third quarter 2005 of \$156.6 billion shows an 81.9% year-over-year increase. Year-to-date Conduit originations have already exceeded the prior record annual originations of \$128.0 billion for the entire year 2004.

Conclusions

Based on the year-to-date statistics compiled by the MBA and CMA, we can draw the following conclusions:

- What's hot? Conduit loans (domestic and worldwide), Commercial Bank

loans, and Hospitality loans.

- What's not? Life Insurance Company loans, and Agency (FNMA, FHLMC and FHA) loans.

So what will be hot in the fourth quarter and in the year ahead?

The story of course will be continuedso stay informed....and stay tuned.



† Curtis—Rosenthal, Inc. is a regional commercial real estate appraisal and consulting firm founded in 1983, with offices in Los Angeles, San Francisco and Newport Beach. www.curtisrosenthal.com

SPECIAL REPORT CONTINUED FROM PAGE 8

and PMI Mortgage Group. These funds went directly to build a new house for a needy family. The project is nearing completion, and the family should be moved in time for the holidays.

Recently CMBA launched a new online consumer-based resource center promoting financial literacy and homeownership. Several member company programs are highlighted, as well as resources provided by non-profit organizations and government entities. This will be an ongoing project as more resources are added. If your company has any materials or information for financial literacy or first-time homebuyers,

please be sure and e-mail Dustin Hobbs, CMBA Communications Director, at Dustin@CMBA.com.

Finally, we will all be able to participate through the California MBA Foundation, new charitable program, whose purpose, among other projects, will be to combat the acute lack of consumer financial literacy in our state. In recent years, the residential and commercial mortgage banking industry has seen tremendous growth and success with historically low interest rates. In addition, our industry has witnessed a construction boom that has created a vast increase in housing and commercial property.

Considering the economic success that this dynamic environment has created for our industry, the CMBA leadership has established the California MBA Foundation to create a venue to give back to California's communities.

As we close out 2005 and look forward to 2006, be sure that CMBA will keep you up-to-date on the latest changes or news on HMDA. The issue will continue to be very important, and I encourage you to look to CMBA to provide industry quality leadership and effective solutions that will help our businesses grow, and help expand access to the American Dream of homeownership.



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eMortgage Logic
Truthin Home Loans, Inc.
C & S Marketing

Impac Mortgage Holdings, Inc.
Interthinx, Inc.
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Harbinger Mortgage Solutions

Casa Blanca Mortgage, Inc. dba:
Shearson Mortgage
Best Rate Funding Corp.