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SAMPLE REPORT: CONFERENCE INSIGHTS

CREFC: A Competitive Market



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Green Street recently attended the Commercial Real Estate Finance Council (CREFC) conference in New York. Participants included issuers, securitized investors, servicers, portfolio lenders, rating agencies, loan brokers, and regulators. The conference highlighted a highly liquid backdrop in real estate debt markets that benefits borrowers while driving increased levels of competition among key lenders.

Volatility in base interest rates has kept borrower demand for non-call protected floating rate loans or short-term fixed rate loans elevated and has blurred the lines between different lender segments, leading to more competition over a finite set of deals. This should result in further compression in real estate credit spreads over 2H25. Lenders were optimistic that stability on base rates and increasing transaction activity could spur demand for long-term acquisition financing in the back half of the year.

Macro Takeaways:

- Real estate lending markets are wide open and competition among lenders has increased meaningfully as they lean into the [attractive relative value](#) offered by real estate credit. This is particularly visible in resilient loan origination activity even through volatile periods over early '25 – when the S&P 500 declined >20% and the CMBS market ground to a halt over a two week period in April following tariff announcements. Loan brokers highlighted that this two-week period was the busiest for placing loans in balance sheet lender portfolios since '22.
- Real estate spread volatility has decreased, which has given borrowers incremental certainty in loan costs, driving improving loan demand. That said, still-elevated volatility in base rates has kept demand well below '21 and '22 levels – especially for long-term fixed rate loans. Participants agreed that the majority of new originations were driven by refinancings, though many were optimistic that [a healing transaction market](#) could spur acquisition loans over 2H25.
- Volatility in base rates has kept borrowers hesitant to lock in long-term debt. This has resulted in elevated demand for non-call protected floating rate loans, or short-term (~3-5 year) fixed rate loans. Lenders have adapted their strategies to meet borrower needs; however, this has resulted in a blurring of lines across the key lenders. Insurance

companies - which historically focused on long duration real estate loans to match the duration of their liabilities, and created "BARR" loans - that were previously focused almost exclusively on on-or-off properties, have shifted significant volume to shorter-term and variable rate loans. Therefore, most lenders report that on the same point of debt, making the leading market liquid for borrowers and equity counterpart for lenders.

- The volume of short- and more stable loan credit offered by lenders about loans are now more appealing for borrowers. Despite the somewhat higher costs in "BARR" loans, participants noted that most borrowers adjust lenders for multiple periods, use for a "base cost" "BARR" structure, and another for a follow-on "floating" loan. Profitable lenders, including banks and insurance companies, viewed this as an opportunity to increase their market share on new debt. Many lenders noted that origination volume would likely increase meaningfully to drive the result in their "BARR" loan portfolio.

Senior Level Takeaways

- The increase in high-quality office loans was particularly noted, as the sector accounted for roughly 1/3 of new-to-date "BARR" issuance. The market for leading against high-quality office is now extremely liquid, spreads have declined to ~200-250bps, and CTRs on new debt are increasing. Further, lenders noted that the increase in office "BARR" issuance had made credit competition - that had previously defined the sector - more amenable to evaluate office debt, which could lead to further spread compression. Participants were optimistic that, in time, this could lead to increased liquidity for well-located class B office assets.
- Applicants mentioned the demand across all lenders, however, the sector is also likely the most competitive. Apartment loans offer the lowest spreads combined with tight CTRs and multiple bids on each loan - especially for those that carry smaller check sizes. In addition to the typical leader bank group (e.g., banks, insurers, "BARR" and debt funds), the CTRs have been growing their residential origination as well. In response to heightened competition, the CTRs have issued their credit lines for agency residential loans, allowed for longer amortization periods that boost CTRs and ultimate proceeds to the borrowers, and issued assistance programs (improvements on loan-to-value, off cost, both Freddie and Freddie report to hit their 87% billion annual origination cap this year for the first time since '09).
- Declines in holding and industrial loans reflected somewhat as lenders credit more constraints on the level of assets and their likely impact on supply chains and economic health. Outlooks for other sectors were largely unchanged in the January 2015 conference.

Debt Trends

- The combination of debt funds and mortgage REIT loan originations in '15 was especially notable. Many debt funds noted that loan growth was driven by refinancing demand from two key sectors. The first included borrowers that previously had a bridge loan as a property they expected to sell, but were now looking to reinvest into a new debt structure market. This has led to an increase in "bridge-to-bridge" origination volume. The second fund group included loans that were previously syndicated and extended and need to be refinanced as lenders were unwilling to grant additional extensions. Combined, these two sources of refinancing demand have increased the make-up of debt fund originations. These originations are now comprised of more stabilized, cash flowing properties, and carry less of a short-term to each asset.
- Debt funds typically require - as an incentive to meet their return targets, at least, the growth in origination volume has led to an increase in the market for "back leverage" that boosts the debt fund returns. Debt funds raised CTR markets as a particularly attractive source of financing given the recent compression in spreads, and high advance rates. However, many CTR investors noted that credit enhancement levels (the percentage of the total loan balance that is subordinated to a senior tranche, i.e., the ability to absorb losses before they reach the senior tranche) have decreased on recent debt. CTR investors highlighted that a lower credit enhancement was justified by: 1) a more seasoned track record for funded loans in the CTR market vs. "BARR" (especially since '10), and 2) higher-quality, stabilized originations that are making their way into 10-12 year CTR pools.

Exhibit 1.1 CTR Credit Enhancement Levels

Exhibit 1.1 CTR Credit Enhancement Levels Over CTR's lifespan, there have been varying credit enhancements, which reflects the protection for debt fund investors. As there is less volume in short-term loans before they reach the next senior tranche, however, CTR investors highlight that a more seasoned track record of funded loans, coupled with higher quality, cash flowing, stabilized loans in the 10 and 12-year CTRs could result in lower credit enhancement levels.



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