Secondary market for CMBS loans gains steam

The secondary market for commercial mortgage-backed securities loans is gaining steam, with more originators selling loans to investors ahead of securitization as the new issue market has slowed down. "Whether loan sales represent a Hail Mary pass or a permanent addition to a sophisticated secondary market playbook remains to be seen," said Charlie Marshall, a partner in the finance group at Alston & Bird. "Whatever the game plan or player, whole loan sellers and purchasers must address documentation and legal issues that are numerous and complex."

The trend is gaining traction partly due to the macroeconomic turmoil that has been periodically affecting the market since the start of the year. This turmoil, as well as concerns over collateral quality and the implementation of risk retention later this year, have led b-piece buyers to kick more loans out of deals. "What's been going on has introduced huge uncertainty to CMBS issuers and originators," Marshall said. "Originators are asking how long will they be able to hold a loan, if the loan has been priced appropriately, and when they will be able to sell it."

Although there is no concrete data on how many sales have been completed, the consensus in the market is that the level is rising steeply. "The best example is a securitization group that has decided to review all loans for a simultaneous sale or securitization exit to be able to take advantage of what offers the best return at that time. If the CMBS market is too volatile, the group will sell the loans but if CMBS has started to stabilize, the group would securitize. It's important for lenders to be nimble and be able to examine both exits," Marshall said.

Marshall, who has focused on loan sales throughout his career, noted that this segment of the market heats up when times are bad. "A secondary market trade can be the sale of loan, rather than turning it into a security. It's an old exit but it's one that is often ignored. We see it most in bad times and with the current volatility, the secondary market for CMBS has expanded to take into account whole loans instead of securities," he said.

It's critical to make sure that the documents of these loans are in order, similar to what is necessary prior to a securitization. "That's where the lawyers come – we make sure that whatever the lender or issuers say about the reps and warranties are materially correct," Marshall said.

Terra provides loan to Indianapolis medical office complex

New York-based Terra Capital Partners has provided a $3.5m b-note to a joint venture of Cornerstone Companies and Griffin-American Healthcare REIT III to support their acquisition of Lakeview Medical Office Park in Indianapolis, according to a press release. The $13.75m A-note is held and serviced by The PrivateBank of Chicago, a source closed to the transaction told *REFI*.

"[Terra has] a good relationship with the folks at PrivateBank, we like the strength of the sponsorship, the property's proximity to two major hospitals, and the area's affluence," said Dan Cooperman, chief originations officer at Terra.

The Lakeview acquisition is located in the North Meridian Corridor, a prime office building strip in the Indianapolis MSA, and sits on 10.9 acres within close proximity St. Vincent's Hospital and Indiana University Hospital North Campus. As a result of the desirable location, the property will only need a few strategic capital improvements, Cooperman said.

The medical office complex, located at 8902 & 9002 North Meridian Street, is currently 85.6% occupied, a ratio Cooperman said he believes is poised to increase with the acquisition. "We are confident that the sponsor will quickly stabilize occupancy above 90%," Cooperman said, adding that Cornerstone plans to move in and occupy the property as a tenant.

"Medical office is a very desirable asset class form the standpoint of both lender and owner, offering a predictable source of long term 'sticky' income due to the outsized relocation costs for the tenants – doctors, physical therapists, etc. – to build out their space and bring in equipment," Cooperman said.

Newmark Holdings secures $120m refinancing

New York-based Newmark Holdings has secured a $120m, 10-year fixed rate loan from BNY Mellon, and TD Bank refinancing a three-building, 390,000-square-foot office portfolio. The coupon is at a historical low rate of 3.01%. Proceeds were used to replace an approximately $53m existing financing that was originated in 2008 and held by Mid First & Amalgamated Bank.

"We selected BNY Mellon and TD Bank over other lenders because [there was no interest rate] floor and [we] could take advantage of the precipitous drop in interest rates [that took place in] the last few months, and especially after the Brexit vote," said Paul Talbot, managing director of Newmark. He noted the loan garnered attention from insurance companies, banks, commercial mortgage-backed securities conduit shops and pension funds.

Talbot added the market for stabilized properties, such as 740 Broadway, is still good with plenty of available capital. "We have seen that a few banks have pulled back due to pressure from the regulators and will only look at new deals from existing customers," he pointed out.

The properties include 740 Broadway, 2-20 Astor Place and 440 Lafayette. The properties are currently 93% occupied by tenants such as Walgreens, New York University and L2 Inc. This is the third and second loan Newmark has completed with TD Bank and BNY Mellon, respectively, in the last 12 months.