



*Greetings from the corner office in Miami.*

**TIME.** We recently had a client ask, why like many debt and equity firms, do we not give them 10 to 12 bids on transactions? After 40 years in the real estate business, I politely responded, it is our quest to separate the wheat from the chaff for you, boil it down to 1 to 2 bids and collectively go through the complex nuances and close. Most importantly, we earn our fee and reputation by being highly efficient and not wasting your precious time. Then, we ask the five simple words: "How can we help YOU?"

### **Key Rates**

Spreads have come in to facilitate deal flow and closings, but long-term rates are way up.

**Prime** 6.75%. 30 days ago, 6.75%; 90 days ago, 6.75%; 1 yr. ago, 7.5%.  
**SOFR** 3.5%. 30 days ago, 3.64%; 90 days ago, 3.66%; 1 yr. ago, 4.31%.  
**T-Bill(10yr)** 4.68%. 30 days ago, 4.25%; 90 days ago, 4.06%; 1 yr. ago, 4.44%.

### **Hot Takes**

- Interest rate creep continues, with long rates moving up 70 basis points in the last 3 months. The sweet spot for real estate financings is 5 years, with most transactions priced at 5.2%-5.5%.
- Apartment and industrial assets continue to be the best hedges for inflation and compressed pricing, despite some short-term rent abatements. Retail and office have maximized occupancies and there is an expectation of heightened volatility in the next six months.
- Real estate has always been location, location, location, but now, the major factor is timing. Spreads have compressed, but the focus on high quality assets; and rigorous underwriting and due diligence continues. Transactions are taking longer, so start the process early and hire professionals.
- Lastly, match assets with liabilities; fixing rates now will have long term benefits, in this ratcheted interest rate environment. Then, the focus can be on revenue generation and expense curtailments.

### **Permanent Financing**

Permanent lenders are compressing spreads to facilitate deal flow and remaining allocations are dwindling. Bank pricing is in the 5.2%-5.75% range, for most commercial products on 5 year loans, depository relationships are required and recourse is the norm. Leverage is up to 70% LTVs for commercial properties and 75% LTVs for multifamily. Non-recourse is limited to the lower leveraged, stabilized assets, with excellent track records. Pension funds and life company spreads are tighter, but their focus remains on high quality, stabilized assets. CMBS is in the 6.5% to 6.75% range on all product types, with low LTVs, abundance of I/O and again, rigorous underwriting. Agency lenders are the most active, consummating 75% of the apartment transactions, with rates in the 5.15%-5.65% range.

### **Construction Financing**

Construction lending is down significantly, as developers and general contractors are still finding it hard to pin down costs, contracts and labor. Recourse is standard, which facilitates the most favorable pricing, in the range of SOFR + 175 to 325. Non-recourse loans are pricing at SOFR + 375-475, with LTCs of 55% to 75%.

### **Bridge Financing**

Bridge lending has been active, with tightening spreads and an increased appetite for construction lending and unique products. Increased competition in this sector has been the root cause, with many developers opting for the higher rates and structure flexibilities (non-recourse, I/O, earn-outs and higher LTVs). Pricing starts at SOFR + 375-525 for 1-2 year transactions.

### **Mezzanine & Preferred Equity**

Mezzanine loans, B-notes, and preferred equity capital providers are available, but the execution has been very selective. Bridge financing and C-PACE (equipment and retrofit items) lending options have replaced much of this portion of the capital stack.

### **CapitalQuest Outlook and Commitment**

Take advantage of the volatile interest rates **NOW** and match assets with liabilities. The best options today are fixed, 5 year non-recourse transactions, to mitigate recourse and the volatility in the long-term markets.

Our decades of institutional experience and focus, enables us to provide accurate and timely solutions in the areas of: Loan structuring, loan placements, financial advisory, asset sales and loan sales/dispositions. Our investment banking and equity relationships are superb, as banks, bridge lenders, pension funds, life insurance companies and niche hedge funds are consistently giving us access to their limited pockets of low interest, short term and long-term funds. Most importantly, we work diligently to gain your **TRUST** and **WE CLOSE**.

*Remember, no matter how much milk is shaken, cream rises to the top.  
- JPM -*