

## The CMBS Market Comes of Age

**T**he marketplace for commercial mortgage originations continues to grow at a staggering pace. As we head into a new 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, originating commercial mortgages at an ever-expanding pace. Originations for the first half of 2005 totaled \$75.9 billion, representing a 36% increase over the first half of 2004, according to the Mortgage Bankers Association. If the second half of 2005 continued 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% of commercial mortgage banker loan origination volume. This was followed by loans on office buildings (23.8%), retail centers (17.4%), industrial properties (7.1%), hospitality assets (4.8%) and healthcare properties (1%). Other types of loans made up the remaining 9.9% of the total. A notable trend in loan activity was the resurgence of hospitality loans (4.8% of total loans versus 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%. 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 ongoing 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. The volume from the first half of 2005, which topped \$30.2 billion, far exceeded that amount. A similar trend was noted in loans arranged through 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 sluggish growth in loan volume over the same period. Volume from the first half of 2005, \$14.0 billion, only slightly exceeded 2004's volume 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, originations totaled \$52.8 billion, whereas the same period in 2004 saw \$65.1 billion. This represented a 23.3% increase in year-to-year activity. By the end of the third quarter of 2005, originations had reached \$108.5 billion, a 66.7% increase from the previous year. Year-to-date conduit originations have already exceeded the prior record annual originations of \$93.1 billion for the entire year of 2004. Conduit lending has truly come of age.

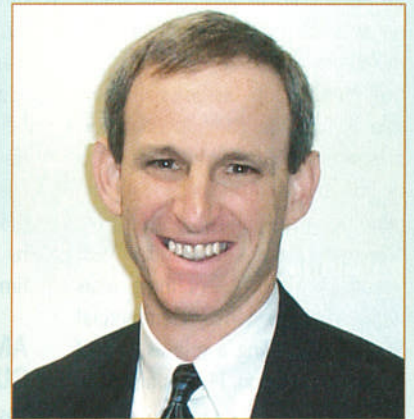
Another indication of the bullishness of the conduit marketplace is the size of securitization pools. Whereas pool sizes used to average around \$1 billion, a recent securitization by Archon and RBS/Greenwich held approximately \$4.5 billion of conduit loans.

**CMBS Issuance Worldwide.** Similar trends are noted in the global conduit marketplace, according to CMA data. During the first three quarters 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. Originations at the end of third quarter of 2005, which totaled \$156.6 billion, show an 81.9% jump over the previous year. Year-to-date conduit originations have already exceeded the prior record annual originations of \$128 billion for all of 2004.

Based on the year-to-date statistics compiled by the MBA and CMA, we can draw the following conclusions: Conduit loans (domestic and worldwide), commercial bank loans and hospitality loans are hot. Life insurance company loans and agency (FNMA, FHLMC and FHA) loans are not. So what will be hot in the year ahead? Stay tuned. —SOCAL

*The views expressed in this article are those of the authors and not Real Estate Media or any of its publications.*

**David M. Rosenthal** is president and CEO of Curtis-Rosenthal Inc., a Los Angeles-based commercial real estate appraisal and consulting firm. He can be reached at [drosenthal@curtisrosenthal.com](mailto:drosenthal@curtisrosenthal.com).



Another indication of the bullishness of the conduit sector is the size of securitization pools.