



**Chandan**

ECONOMICS /  
CRE DEBT MARKETS RESEARCH /

FEDERAL RESERVE BANK OF ATLANTA  
2016 BANKING OUTLOOK CONFERENCE

## **OUTLOOK FOR COMMERCIAL REAL ESTATE LENDING AND REGULATION**

FEBRUARY 2016

**SAM CHANDAN, PHD**

THE WHARTON SCHOOL OF THE UNIVERSITY OF PENNSYLVANIA /  
CHANDAN ECONOMICS /

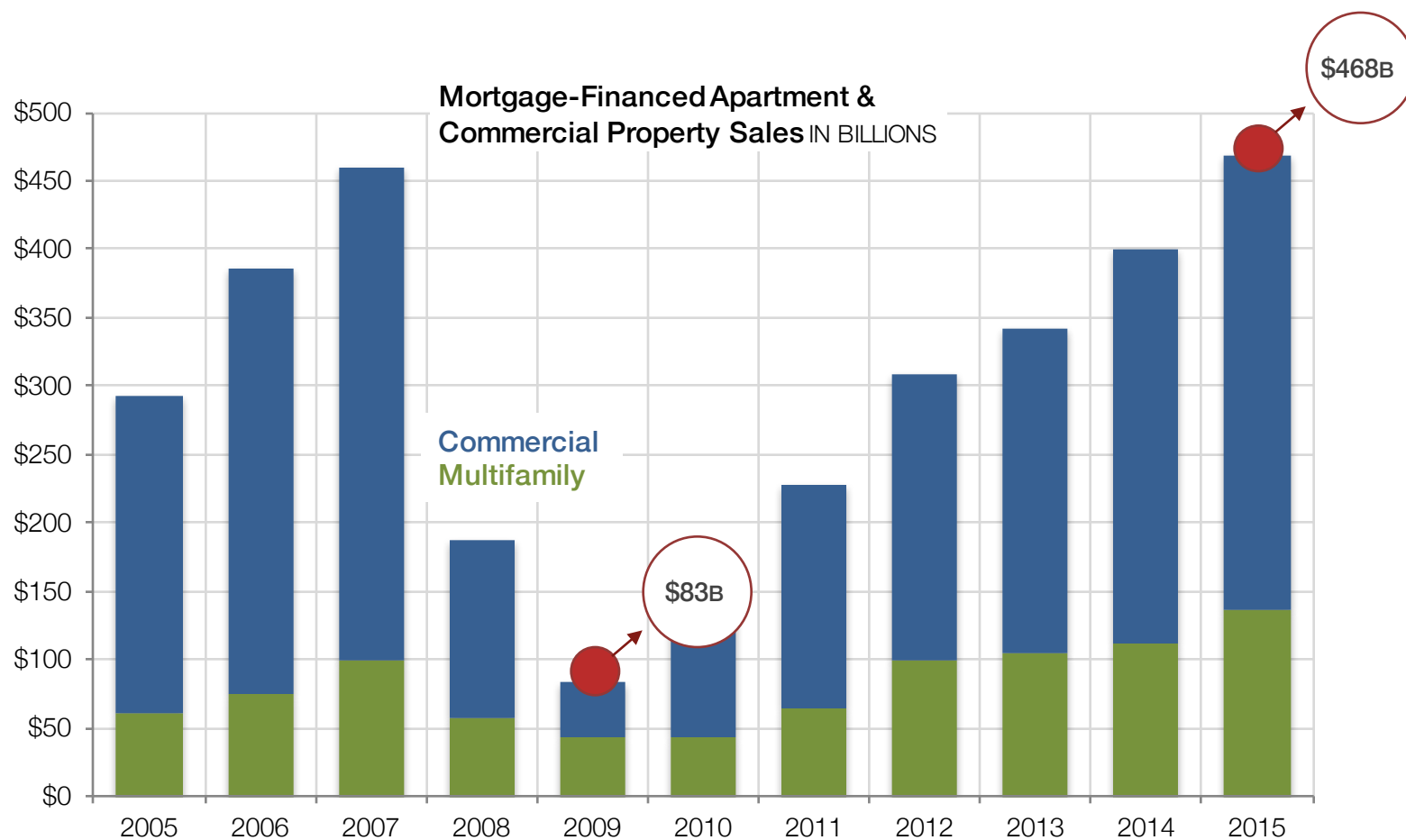
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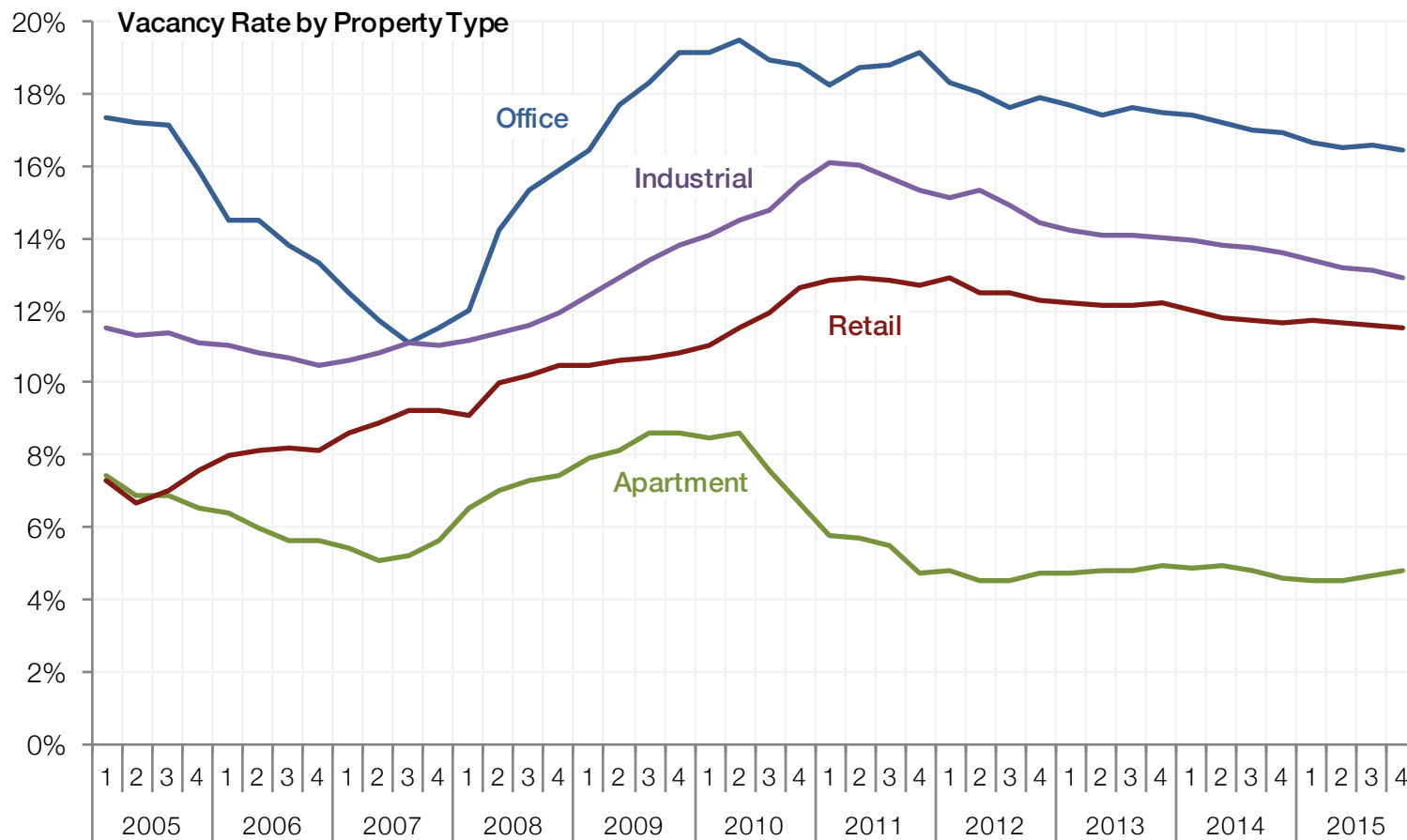
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# PROPERTY INVESTMENT TRENDS

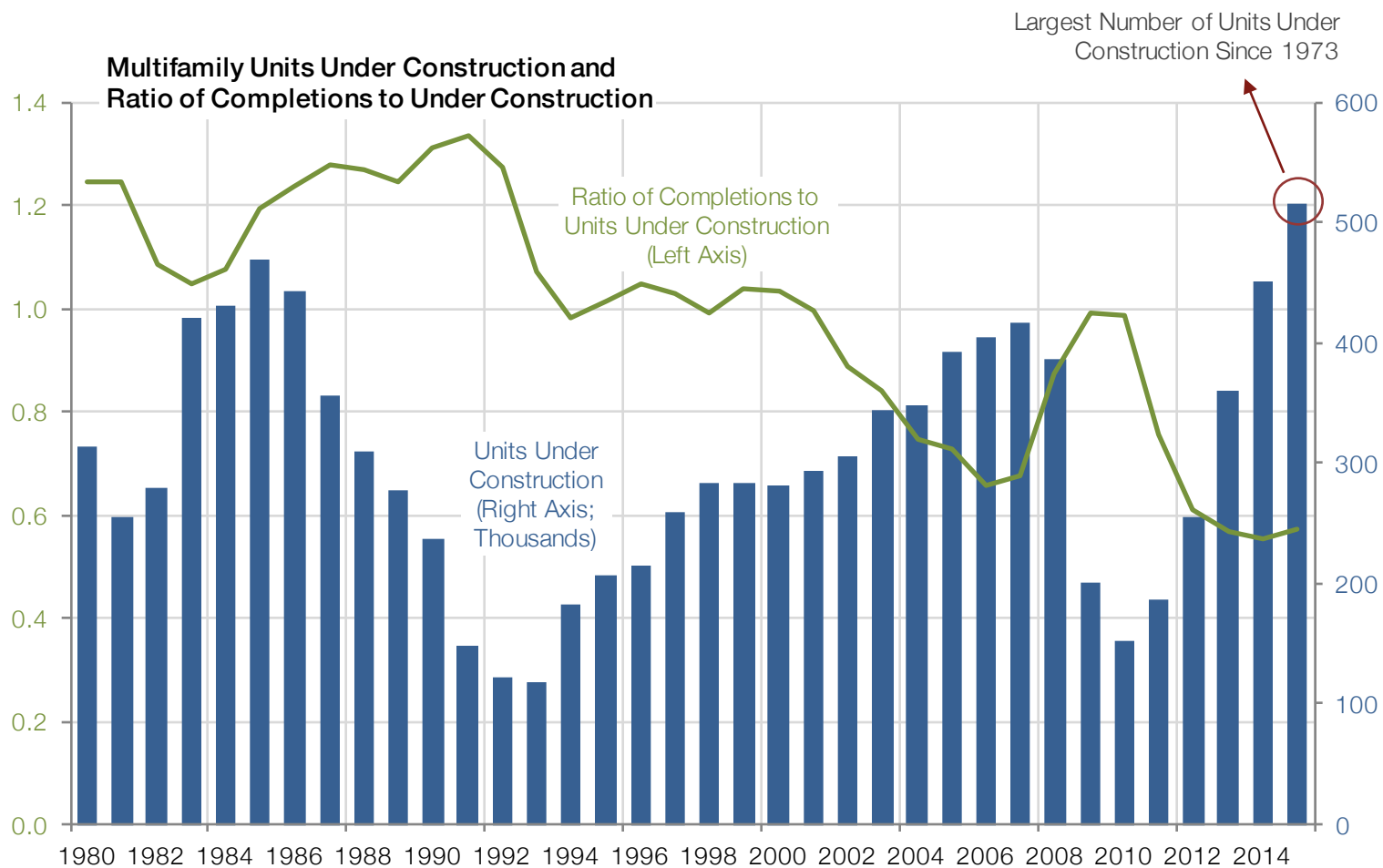


# PROPERTY FUNDAMENTALS TRENDS

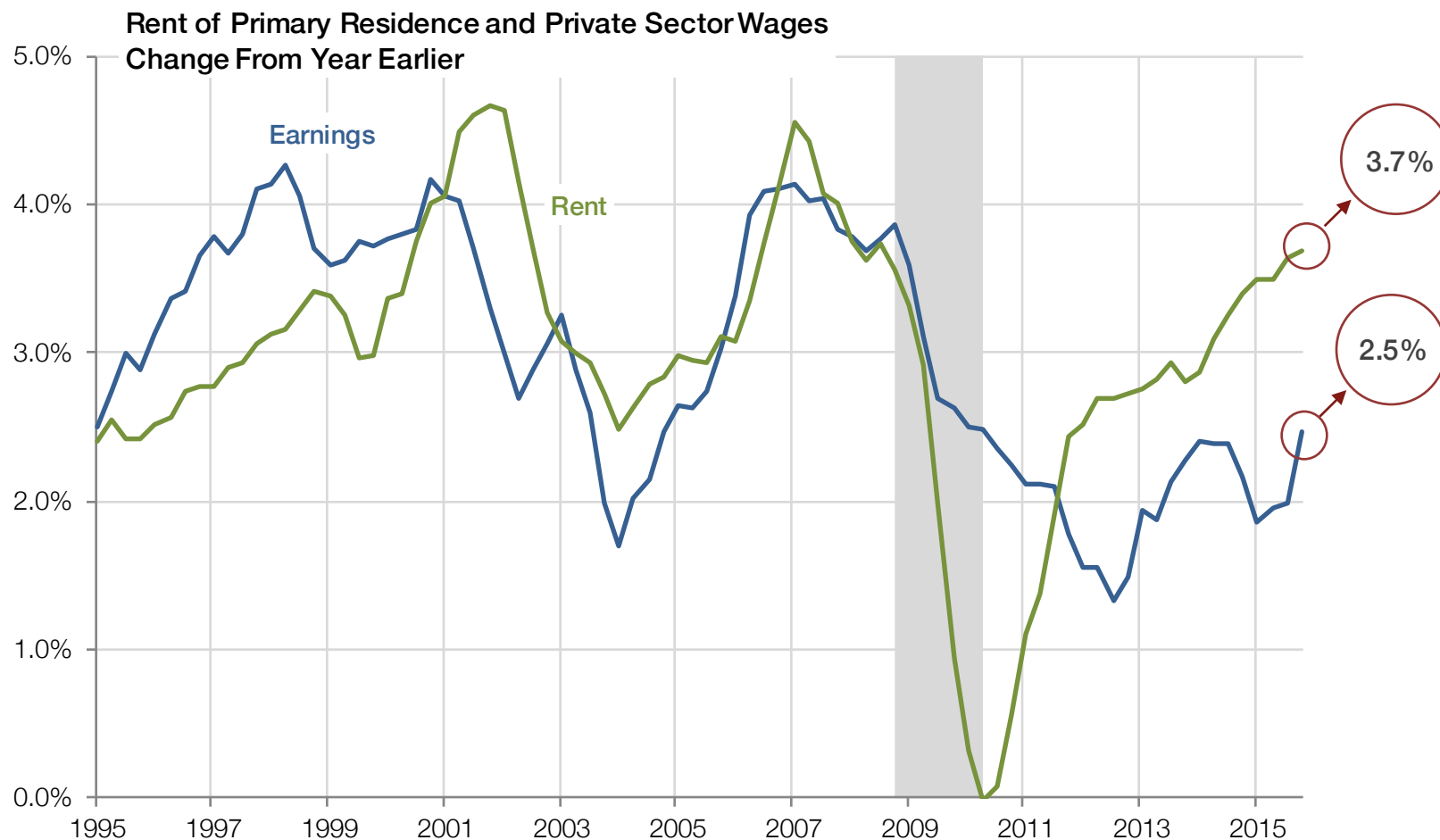


Source: Chandan Economics; Based on Mortgage-Backed Transaction Activity; 2015 Q4 is Preliminary

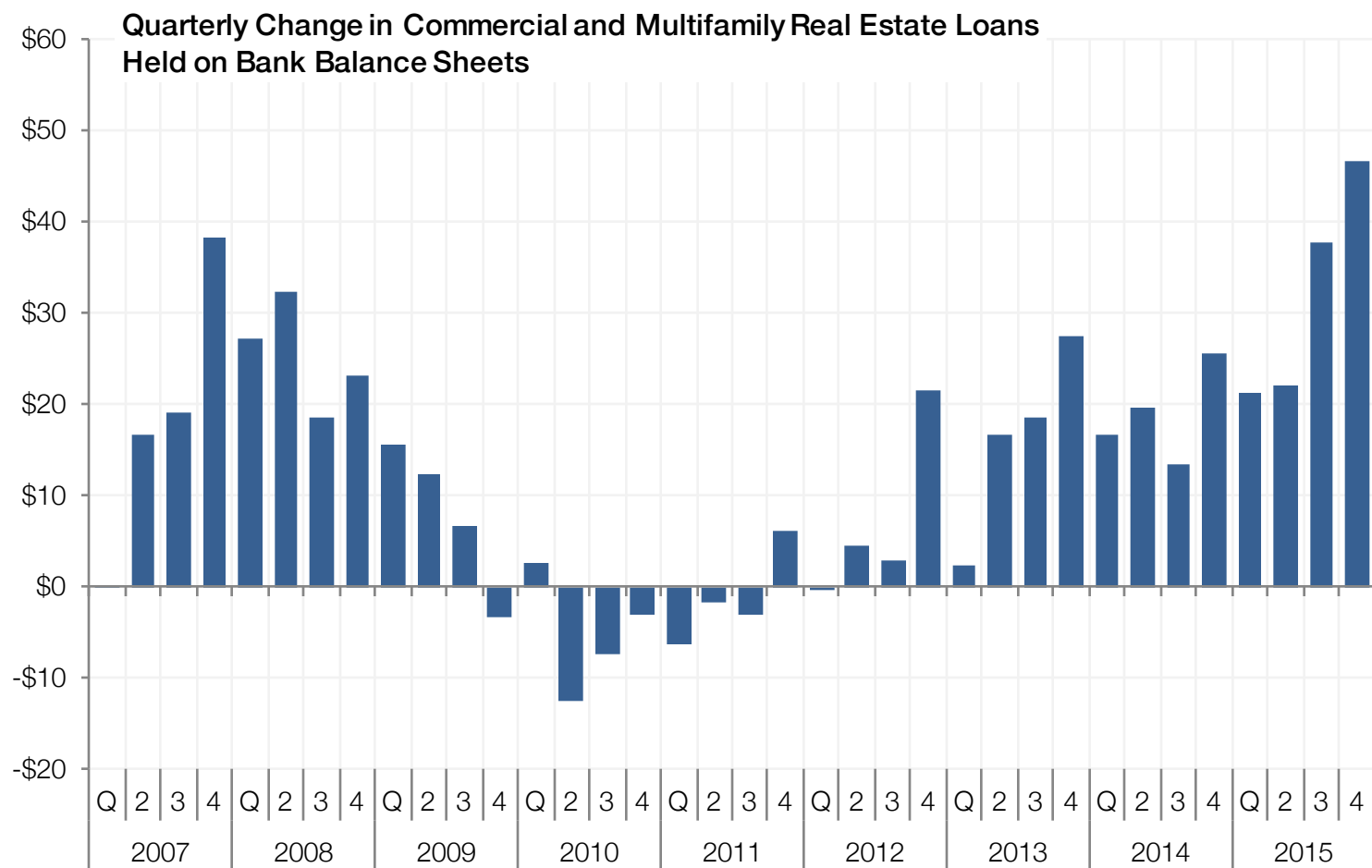
# FUNDAMENTALS CONSTRUCTION



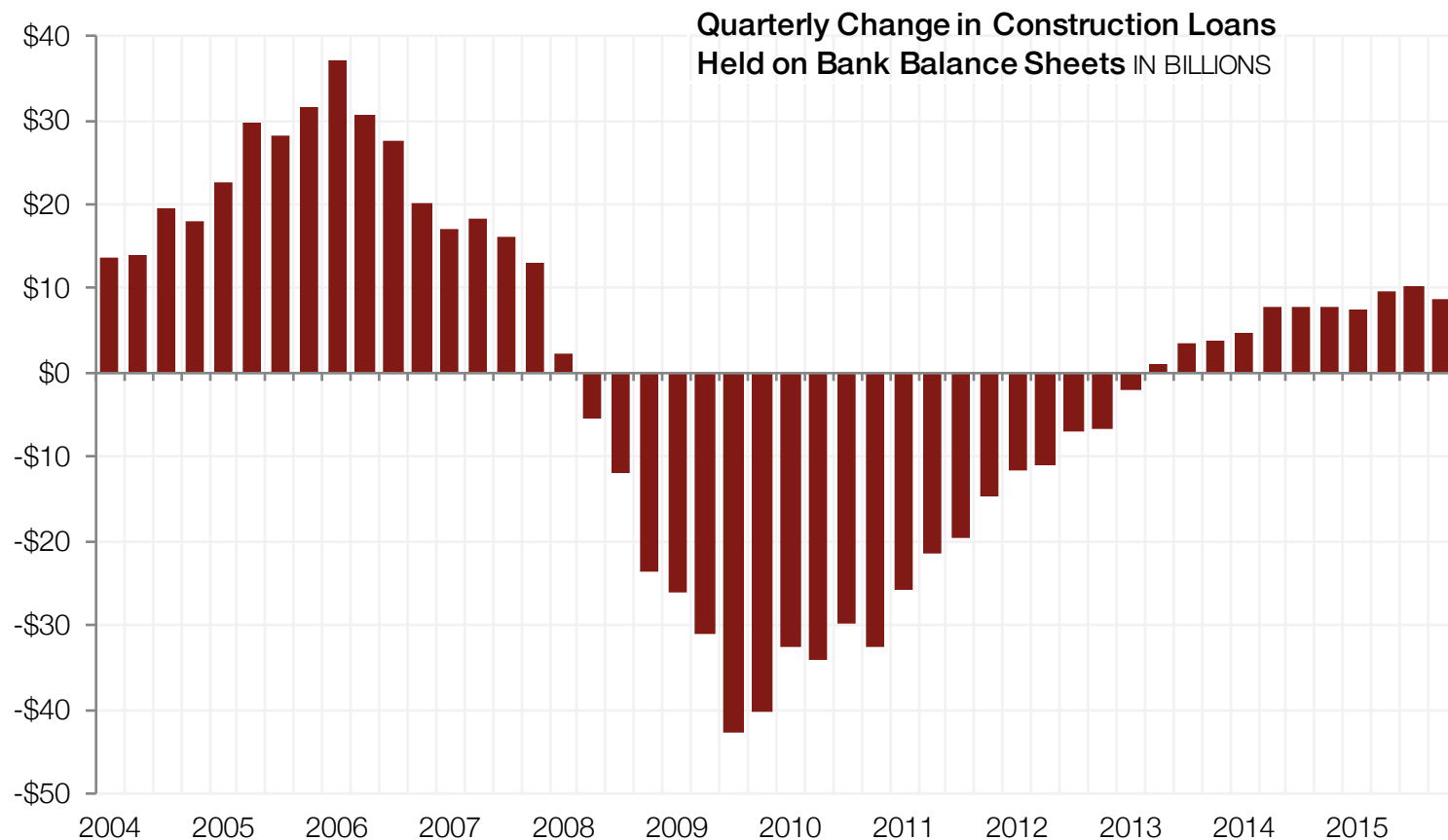
# PROPERTY FUNDAMENTALS TRENDS



# BANK LENDING TRENDS

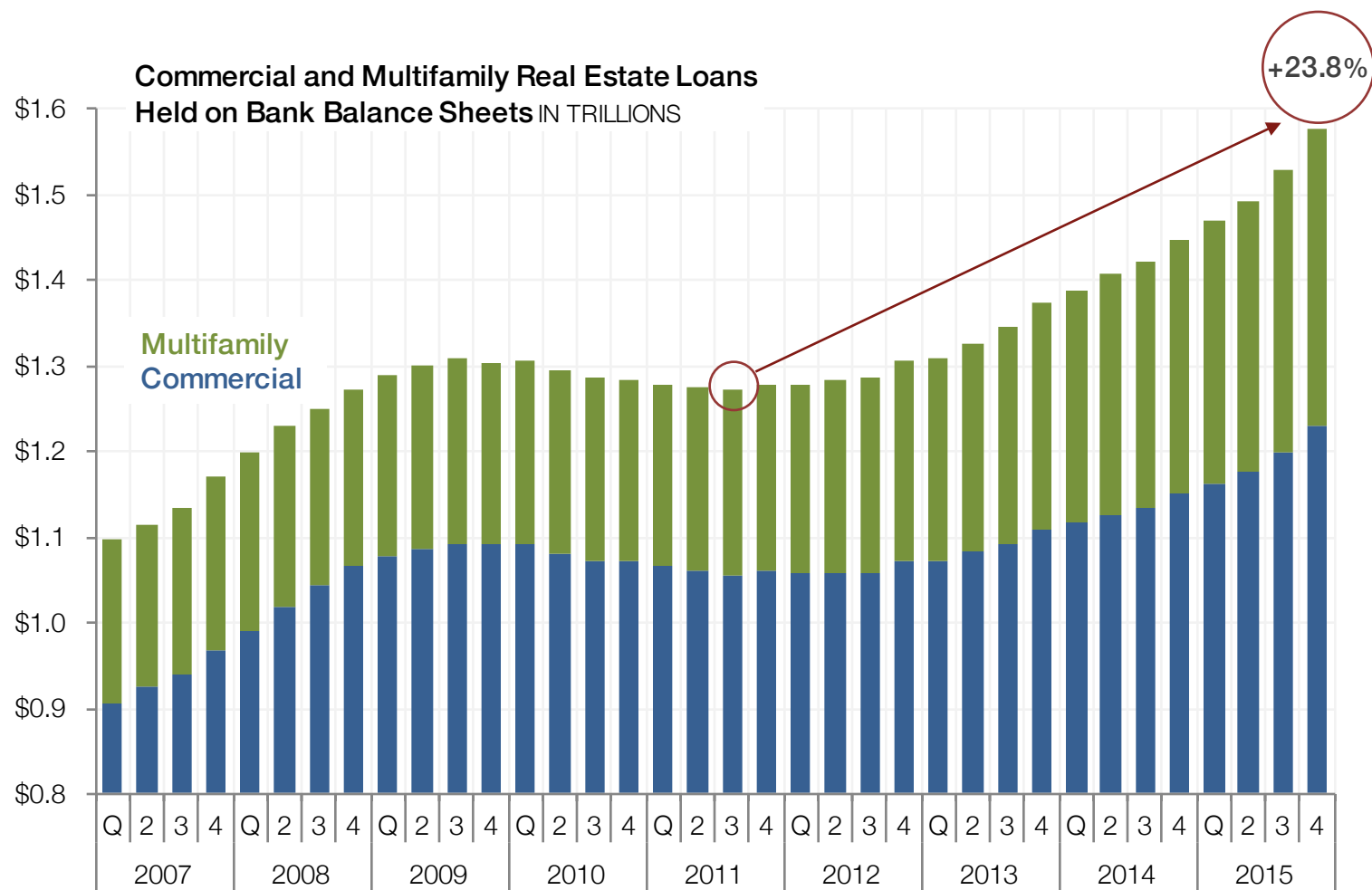


# BANK LENDING TRENDS





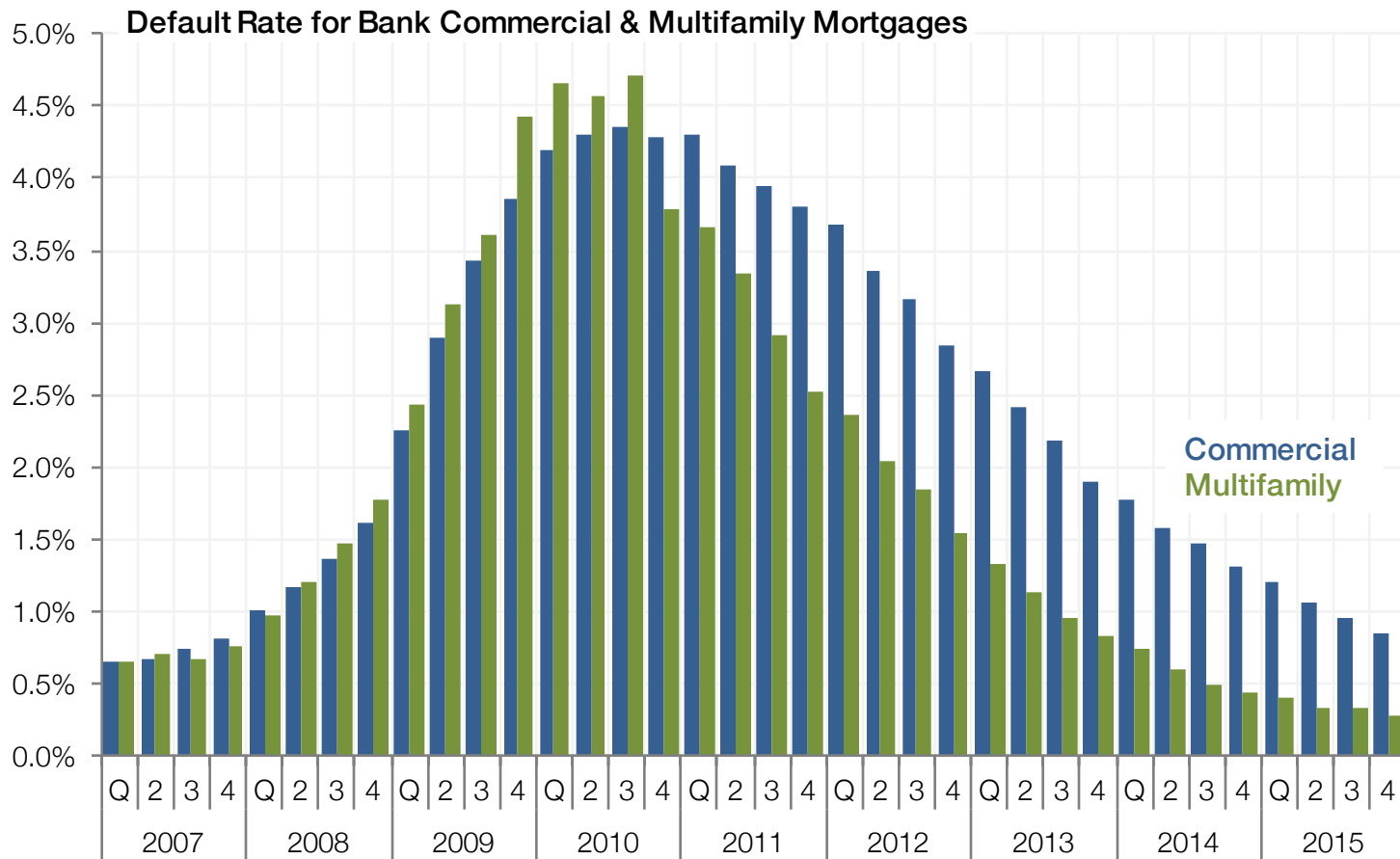
# BANK LENDING TRENDS



# BANK LENDING TRENDS

Cap Rate			Debt Yield		Implied Leverage	Debt Income Ratio
Balance	Q1 2015 & Q2 2015	Q3 2015 & Q4 2015	Q1 2014 & Q2 2015	Q3 2015 & Q4 2015	Q3 2014 & Q4 2015	Q3 2014 & Q4 2015
\$1 – \$5	6.2%	6.0%	9.1%	9.0%	67%	\$11.10
\$5 – \$10	6.0%	6.0%	8.7%	8.7%	69%	\$11.49
\$10 – \$25	5.7%	5.6%	8.0%	8.0%	70%	\$12.50
\$25 – \$50	5.3%	5.3%	7.4%	7.4%	72%	\$13.51
\$50 +	4.7%	4.6%	7.1%	7.0%	66%	\$14.29

# BANK LEGACY DEBT PERFORMANCE



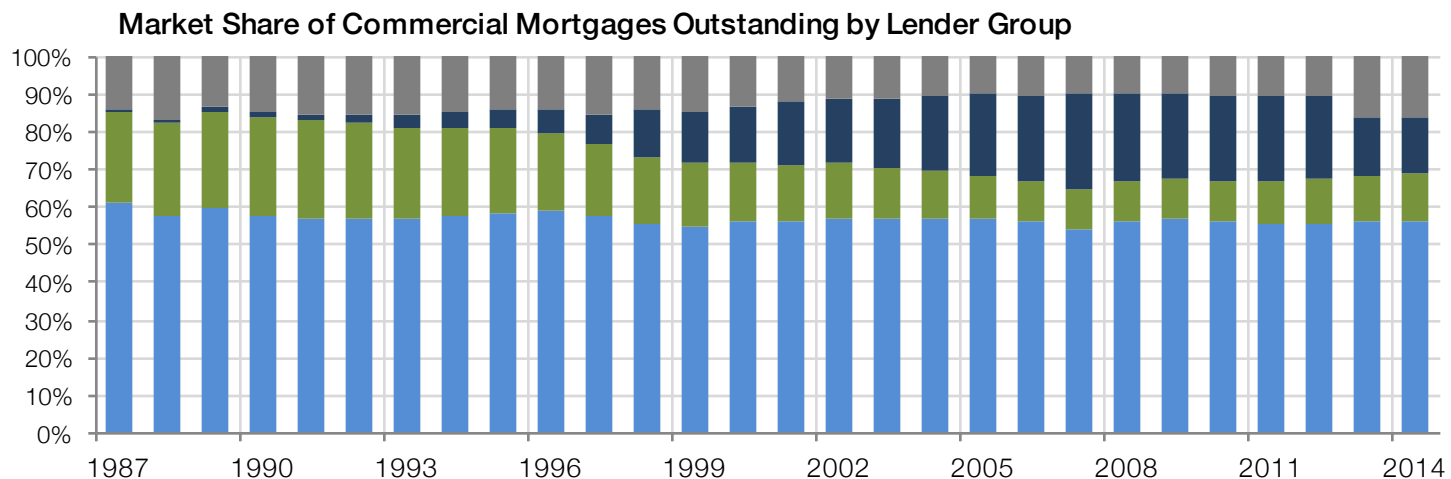
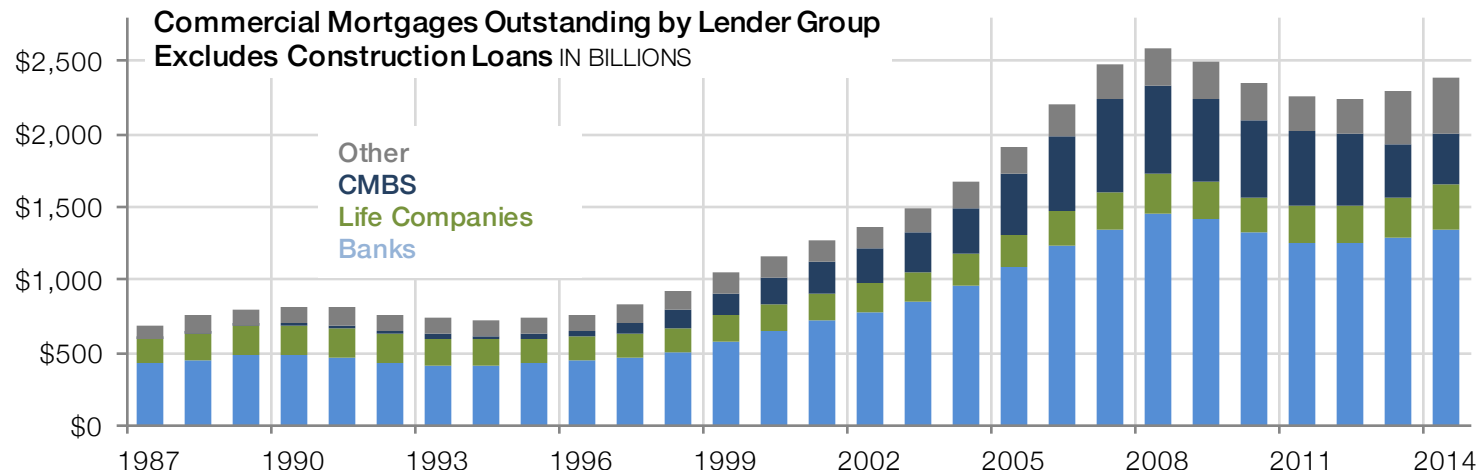
Source: Chandan Economics, Federal Deposit Insurance Corporation; Through Q4 2015

# REGULATORY DESIGN AND REAL OUTCOMES

1. **Cyclical trends masking impact of new regulation**
2. Controlling for risk, a higher long-term regulatory burden
3. Increase in bank lending costs and reduced lending volume
4. Unanticipated costs to the economy through higher input costs
5. **Reduced competitiveness of highly-regulated institutions**
6. Ambiguous impact on underwriting quality
7. **Greater burden on small- and medium-cap borrowers**

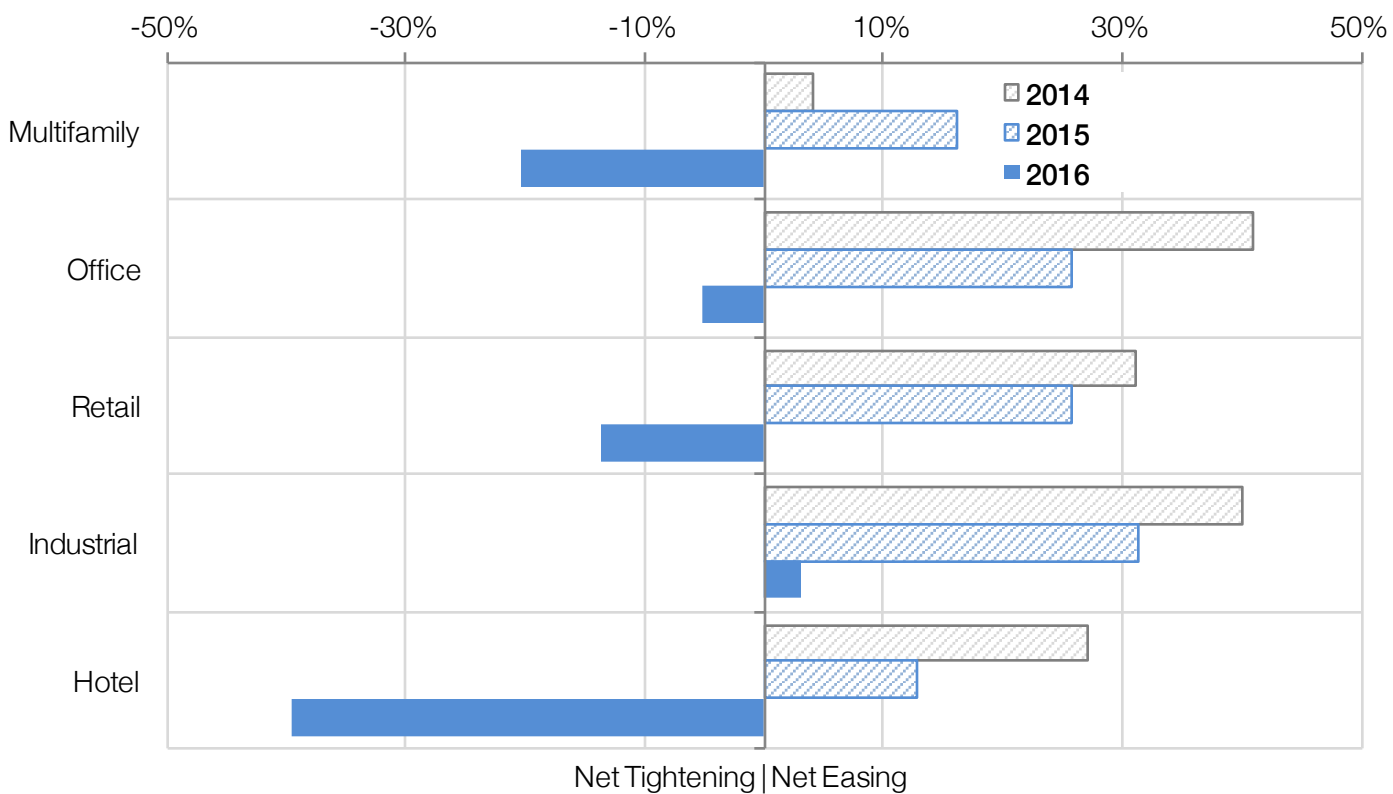
The Impact of Regulation on Commercial  
Real Estate Finance—Regulatory Design, Real Outcomes  
Commercial Real Estate Finance Council (CREFC)  
December 2015

# COMPETITIVE LENDING MARKET

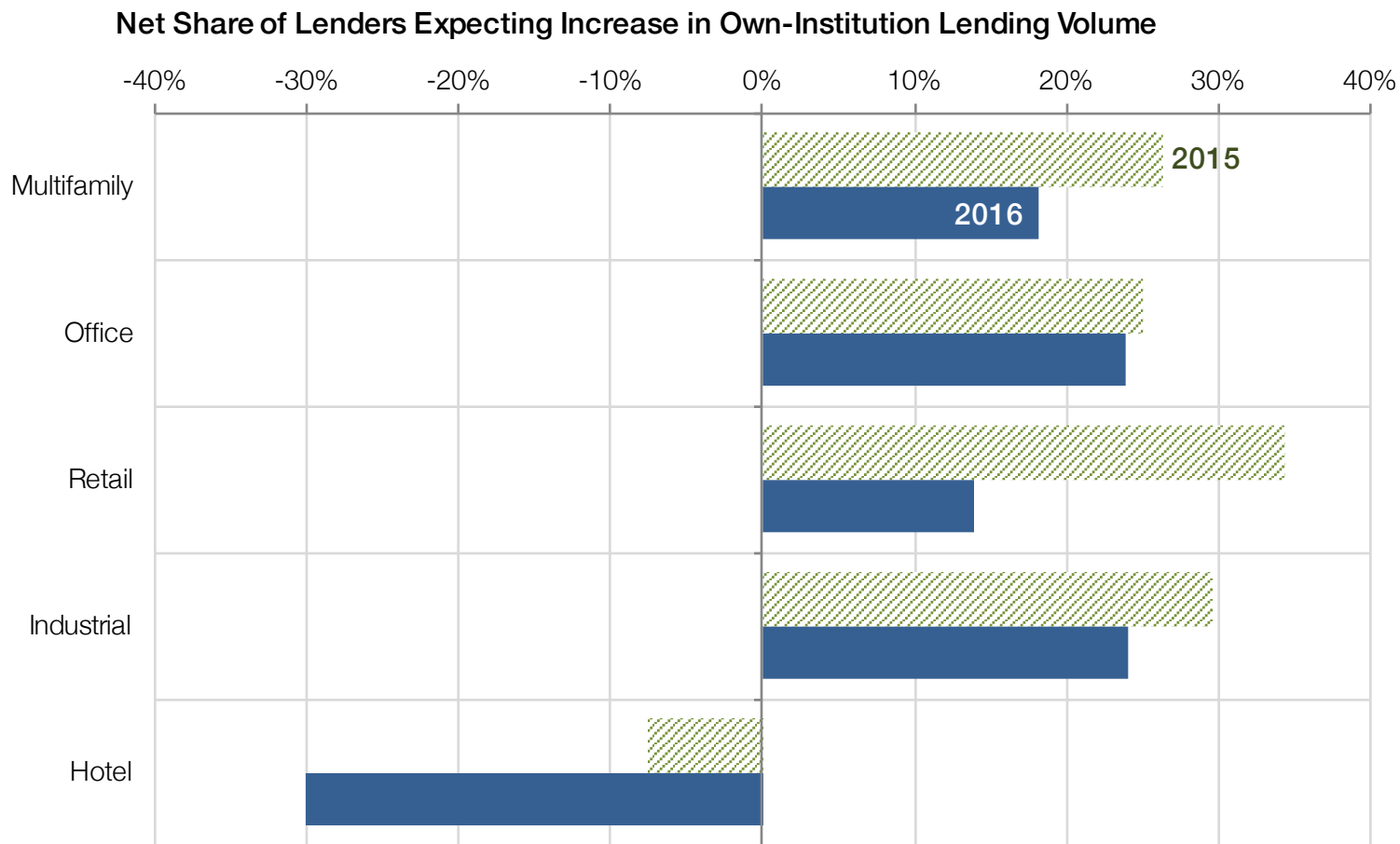


# BANK LENDING TRENDS

Net Share of Lenders Expecting Easing in Lending Standards

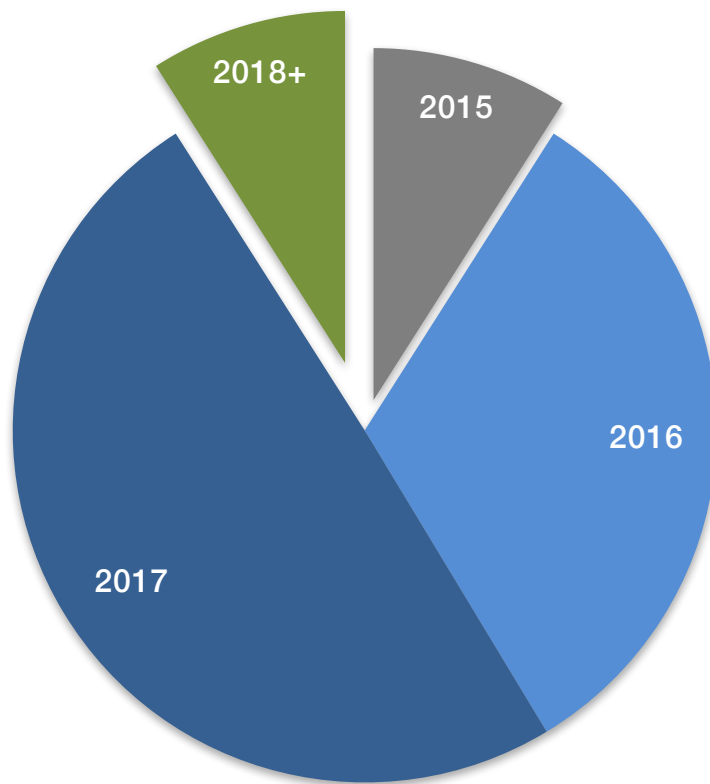


# BANK LENDING TRENDS

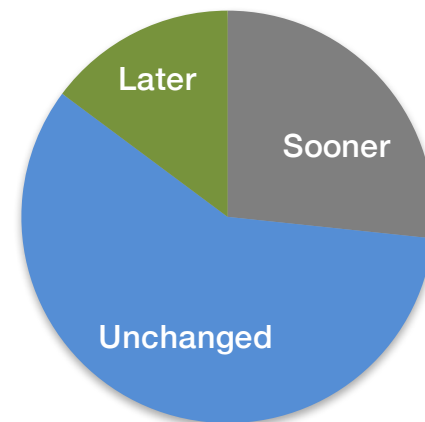


# BANK LENDING TRENDS

When Will Lending Volume  
Reach its Cyclical Peak?

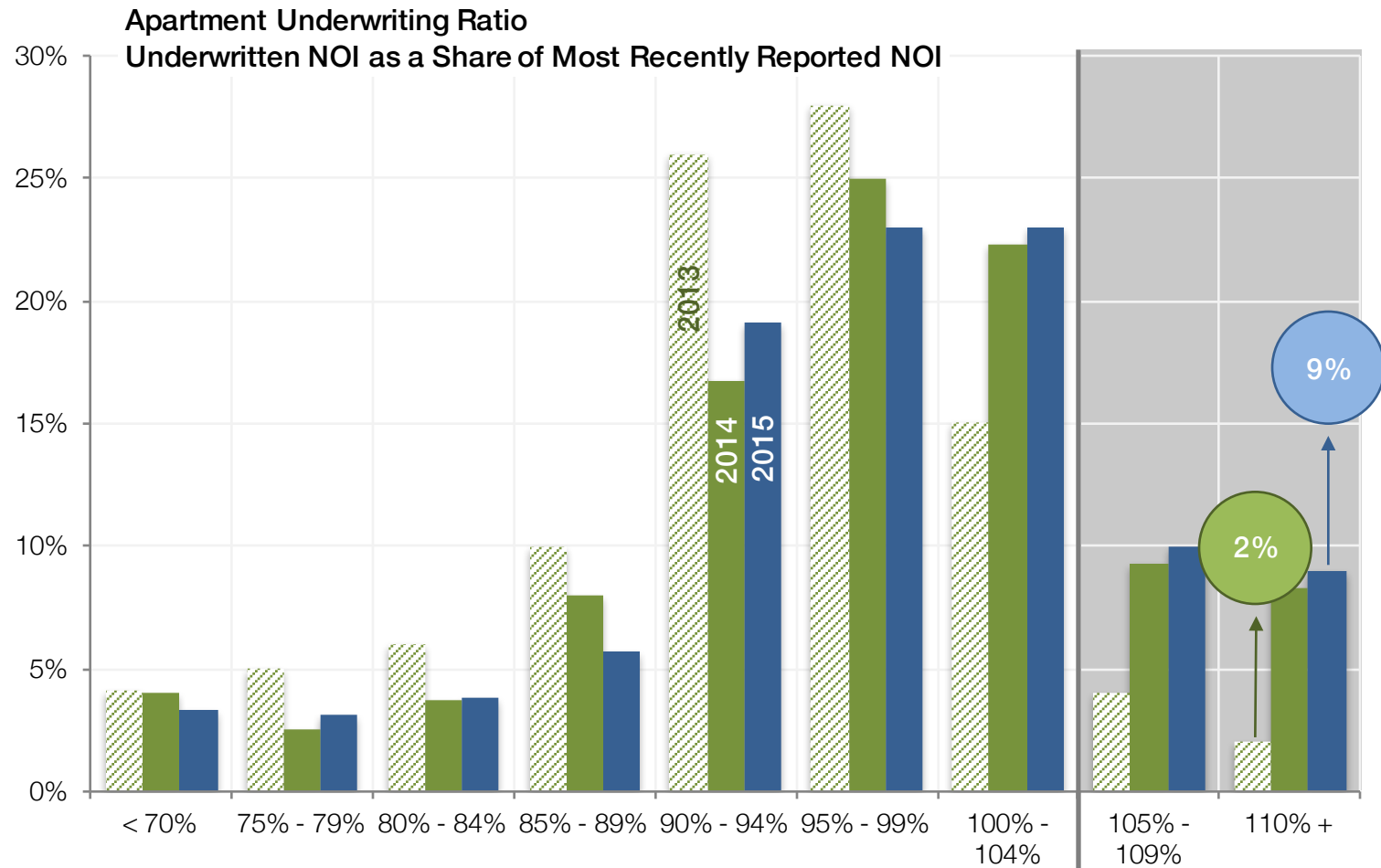


As Compared to Mid-2015, How  
Have Your Expectations for the  
Timing of the Market Peak  
Changed?





# BANK AND NON-BANK LENDING TRENDS



Source: Chandan Economics; Based on Partial Sample of Agency, Bank, and NBFIL Mortgages \$1.5M+

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