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A midst macro volatilities and widened spreads, the lending market remains largely a borrower's market. For good quality real estate with lower leverage and strong cash flow, lenders are step- ping up on pricing, term and structure, market sources tell REFM.

"It's a nervous lenders' market to originate and because the market has certainly been wider, especially in the conduit and [collateralized loan obligation] world we play in, borrowers are subject to the market. On the lender side, it is active but more conservative given that there are a lot of deal out there," commented Jon Trauben, senior managing director at Hunt Mortgage Group's capital markets group. "It is a borrower's market but borrowers are paying a bit more in spreads," he added.

Even with the 10-year swap rate hovering around 2% and wider spreads in the bond market, borrowers – particular in the apartment sector – continue to garner attractive financing, according to Ari Hirt, managing director in the debt and equity finance group at Mission Capital. "[Some] apartments deals are getting done at less than 200 basis points over swaps. Depending on apartment type and location, overall borrowing rates are around 4% for apartments, low to mid 4% for anchored retail and office and slightly wider for hotels." Apartment, hotel, retail/office loans are generally being originated with leverage levels of 80%, 70% to 75% and 75%, respectively.

Dave Karson, executive managing director in equity, debt and structured finance group at Cushman & Wake field, observed that low-leverage strong collateral sees spreads that are in the low 100s over the Treasury, whereas construction mezzanine sees a higher spread, at Libor plus low double digits. Interest rates for construction mezzanine can be in the low double digits, with some transitional and secondary-market-based transactions getting rates in the teens.

Declaring that "it's absolutely a great time to be a borrower," Karson noted that creative term and structure are more attainable when dealing with a single balance sheet lender as oppose to a syndicated group of lenders. Indeed, working with CPPIB Credit Investments, a wholly-owned subsidiary of Canada Pension Plan Investment Board, the firm arranged a $526m loan for Kemper Development Company. e loan provides long-term fixed-rate financing and consists of four separate, distinct loans for each of component of the development site, including condo, multifamily, hotel and retail.

Karson added that institutional players like banks and insurance companies have become more tolerate in allowing subordinate capital behind or be part of their own loan.

Across the board, borrowers are getting high proceeds, low rates and flexibility in negotiating terms. "For certain borrowers we are seeing some lenders getting comfortable without shortfall reserves in value-add bridge deals. For strong borrows we have represented, lenders are willing to accept other structures in lieu of interest reserves and are offering pari passu basis funding with lenders of future advances post-closing, instead of having to put up 100% of the equity upfront, which enhances returns for borrowers," said Hirt.

But with transition volume high, the market is tiering. On the CMBS side, JPMorgan's new commercial mortgage-backed securities deal priced at swaps plus 127, with the BBB- and C Class pricing at swaps plus 565 and swaps plus 380, respectively. e lower tranches are priced considerably wider compared to most deals, which see BBB- at swaps plus 510 to 520 and Class C at swaps plus 310 to 320, according to an investor. e deal has a total of four rating agencies including Moody's Investors Service and Fitch Ratings on the deal's AAA- rated tranches and Kroll Bond Rating Service and DBRS on the remainder of the deal.

"The market is definitely hearing the agencies. For a major conduit deal like this, when you build in buyer risk for the lower classes of bond, you really need to talk to both the buy side and the credit side. It's not a huge universe BP buyers out there," commented Trauben. "On the micro level, the biggest BP buyers have more power to craft individual deals, but from the macro bond buyer side, you have tiering where deals with lower LTV, like the Wells deal [WFCM 2015-NXS3], traded tighter," he added.

All in all, the lending market continue to see robust transaction volume in an environment that capital, both domestic and foreign, are plenty. Market sources believe market tiering will continue, given that with more deals available buyers can be more selective, but also noted the market is more conservative compared to two months ago.