Invest with the Best
In Commercial Real Estate

Mary-Kathryn Dotzko, Bank of Montreal
Shahram Elghanayan, Capital One
Rick Green, USAA
Eric Martinez, Moody’s Analytics
Chris Henkel, Moody’s Analytics

November 5, 2019
Mary-Kathryn Dotzko  
Associate Vice President  
BMO Financial Corp.

Shahram Elghanayan  
Head of CRE Underwriting and Asset Management, Northeast  
Capital One

Richard Green  
Vice President, Enterprise Risk Management and Analytics  
USAA

Christian J. Henkel  
Senior Director - Reis  
Moody’s Analytics

Eric Martinez  
Senior Director - Reis  
Moody’s Analytics
Supply and Demand for CRE Loans
All Commercial Real Estate (1995-2013)

Net % of Respondents Reporting Tightening Standards and Stronger Demand

Source: FDIC
Supply and Demand for CRE Loans

Net % of Respondents Reporting Tightening Standards and Stronger Demand (2013-Present)

Source: FDIC
Supply and Demand for CRE Loans

Net % of Respondents Reporting Tightening Standards and Stronger Demand (2013-Present)

By the Numbers…

» Lenders closed a record $574 billion in commercial real estate loans in 2018 with an average loan size of $19 million

» At $266 billion, Multifamily properties saw the highest volume of origination – followed by office buildings, retail properties, industrial, hotel/motel and health care

– 4.0 million new multifamily building permits YTD September; up 21% YoY

» More than half were originated by commercial banks ($174 billion) and GSEs Fannie/Freddie ($142 billion)

– The rest, in order: CMBS issuers, life insurance companies and pension funds, REITs, and investment funds

Source: FDIC; Mortgage Bankers Association, Census.gov
CRE Loans Held at Commercial Banks
CRE Loans are the Fastest Growing Asset Class Since 2013

Source: FDIC (excludes SFR construction and OO-CRE)
The average person is bombarded by the equivalent of about 200 newspapers worth of data each day – Five times more than in the 1980s

The human brain receives 11 million bits and makes 10 quadrillion calculations every second

Advancements in technology enable us to make more informed decisions with better (and much more!) information

Having more information available at a greater frequency is altering customer expectations and how we do business
Analogy: Road Maps

20 Years Ago...

10 Years Ago...
Analogy: Road Maps

Today

» 25 million updates from over 1,000 sources each day
» 1 billion active users each month
» 40 million miles of roads
» 150 million places (with names, addresses, ratings, reviews, hours of operation, contact information)
» 99% coverage of the world

Current Stats

Google used solar-powered cameras strapped to sheep to collect imagery of the Faroe Islands (aka “Sheep Island”).

The hilly country has 50,000 people and 70,000 sheep.
Topics For Discussion:

» Changing customer expectations and behavior
» “Real-time” information about properties, markets, and emerging risks
» Digitized and standardized underwriting/onboarding
» Automated and objectively-based lending and investment approvals
» Minimizing bias from credit decisions and within models (perhaps w/machine learning)
» “One-stop-shop” vs. modular solutions
» Shift in recruiting to more tech-savvy and analytical profiles
» Advanced analytics and use of granular data in lending and risk management
» Impact of the rapidly-growing number of fintech start-ups
» Crowdsourcing ideas and information
» Need to quantitatively demonstrate a strong risk culture (instead of qualitative statements)
CREDIT RATINGS ISSUED BY MOODY’S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY’S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY’S PUBLICATIONS MAY INCLUDE MOODY’S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY’S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY’S OPINIONS INCLUDED IN MOODY’S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY’S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY’S ANALYTICS, INC. CREDIT RATINGS AND MOODY’S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY’S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY’S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY’S ISSUES ITS CREDIT RATINGS AND PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY’S CREDIT RATINGS AND MOODY’S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY’S CREDIT RATINGS OR MOODY’S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR REsold, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY’S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY’S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY’S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided “AS IS” without warranty of any kind. MOODY’S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY’S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY’S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody’s publications.

To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY’S.

To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY’S IN ANY FORM OR MANNER WHATSOEVER.

MOODY’S INVESTORS SERVICE, INC., a wholly-owned credit rating agency subsidiary of Moody’s Corporation (“MCO”), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody’s Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody’s Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS’s ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading “Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy.”

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY’S affiliate, Moody’s Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody’s Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 385989 (as applicable). This document is intended to be provided only to “wholesale clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY’S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody’s Japan K.K. (“MKJ”) is a wholly-owned credit rating agency subsidiary of Moody’s Group Japan K.K., which is wholly-owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody’s Japan K.K. (“MSFJ”) is a wholly-owned credit rating agency subsidiary of MKJ. MSFJ is not a Nationally Recognized Statistical Rating Organization (“NRSRO”). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MKJ and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MKJ or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MKJ or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MKJ or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JP¥200,000 to approximately JP¥350,000,000.

MKJ and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.