Technology Amplifies Market Intelligence

Access to information makes the world of buying and borrowing more transparent than ever

By Ely Razin

Much has been written about how technology is changing the commercial mortgage business, but it's not always clear how those changes are occurring, or whether technology is living up to its billing as a great savior of the business. After all, haven't the old standby approaches to commercial real estate lending served the market well for decades?

The short answer is yes. Many standbys that have for years been essential to the business of real estate, borrowing and lending do, indeed, still hold up. Tactile assessments and human intuition still have a role to play. Lenders and borrowers still need to find each other. Location is still essential. The more you know about a deal before you sign on the dotted line, the better equipped you are to make good decisions.

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At its most useful, technology brings clarity to those decisions by delivering valuable data about properties, comparisons and markets. Those are details that originators, buyers and lenders need to know, but old-school underwriting techniques sometimes miss. Essentially, what technology does for commercial real estate is help those in the industry do their jobs faster, better and smarter than before.

On the one hand, technology is revolutionizing the commercial mortgage business, in part by getting rid of the lack of transparency that contributed to the Great Recession. Yet it is not just breaking molds; it also is helping commercial real estate players do the things they already do, with an added edge.

Technology has a broad meaning, however. To put it to its best use, you need to understand exactly what technology can and cannot do to assist commercial mortgage borrowers and lenders.

Providing transparency

To outsiders, the commercial mortgage business has historically been hard to understand, with knowledge concentrated in the hands of a few select players. For too long, lenders and borrowers alike have been overly reliant on limited resources for their information, whether about the risks they are taking, the market they are entering, or other players with whom they might, or might not, want to do business.

Technology driven by big data and data analytics enables lenders to find out essential information for themselves — such as which loans are distressed or coming up for refinancing, the financial history of the property and the overall conditions in a given market. That results in lenders being better equipped to reduce risk and make better business decisions. This is especially true when lenders can see the whole picture, getting the information for both commercial mortgage-backed securities (CMBS) loans and nonsecuritized lending opportunities.

CMBS deals are more diverse, given that they tend to include loans in different markets for different property types. Of course, it's difficult for one person to be an expert in all these areas, yet financial institutions putting the deals together need to know about them all. And the more that originators know about a loan, the better able they will be to package it for a CMBS deal, if that's their goal. This is particularly important with the stricter regulatory standards seen in the "skin in the game" mandates that require sponsors of securitization transactions to assume a minimum level of risk.

In addition to making commercial real estate information more accessible to more players, technology also can make lenders and borrowers more accessible to one another. Technologies that result in new matches, for example, include crowdfunding sites and websites that match up tenants with properties available for leasing.

Whether you're thinking of entering a new market, taking on a new borrower or arranging a loan for an unfamiliar property or locale,

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technology offers a way to discover the risks and benefits without working your existing relationships (or without even having them, for that matter). The reverse holds true as well: If loan originators have a good history, top-notch borrowers may find their way to them.

Spotting risk and opportunity

Technology that allows users to search for the information they need based on criteria, such as loan maturity, geography and property type, can help lenders discover where there is a loan due to mature in the coming year, or whether borrowers have been delinquent. Commercial real estate technology can combine various factors about a given property to let lenders know how risky an investment is and whether it fits into their overall investment strategy.

Let's say a prospective borrower is asking for a multimillion-dollar loan for a property that the lender knows little about. Information, in this case, is essential to the lender's due-diligence process. Technology adds efficiency and accuracy to the operation by combining data on securitized and nonsecuritized loans, displaying it in an easily digestible format and quickly showing originators and lenders real-time side-by-side comparisons on a single page. Other data, gathered at the market level, offers reliable market descriptions and useful comparisons of occupancy rates and expected revenue. Ultimately, this information can help lenders decide whether a given loan makes sense for their lending strategy.

That sort of detailed information can be extremely useful, but reams of data also can be overwhelming. One way technology can make it easier to grasp a lot of data quickly is through mapping. Gone are the days when lenders needed to put pins in a map, or draw their own.

With the assistance of mapping technology, the click of a button can bring up maps that allow lenders to compare a given property with comparable properties for CMBS and non-CMBS loans, whether in a local neighborhood or across the country. This makes the comparison process smoother and quicker, leaving lenders more time for more productive tasks.

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Technology is helping to make the commercial real estate market more transparent and accessible — as well as facilitating risk analysis and opportunity spotting, matching up lenders with borrowers and markets, and helping lenders better visualize property comparisons through maps. As a tool, technology intended for mortgage and commercial real estate businesses can help loan originators and borrowers strike more and smarter deals faster than ever. ■