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Letter of Intent - Construction Lending

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Healthy activity in construction spending has led to a renewed faith from commercial lenders looking to take advantage of a robust sector in the market. The low cost of capital and fervent return of the CMBS market have both aided in increased liquidity and easier lending, although standards have become much more stringent than before.

CMBS issuances in 2013 more than doubled that of 2012, with a national delinquency rate just below 6%, as compared to 2012's rate of just below 8%, an assuring sign that the CMBS market has indeed gotten stronger. The rate is sure to fall quite a bit more, as special servicer CW Capital is expected to sell more than $3 billion of distressed assets and additional note sales from its portfolio in early 2014.

According to the Federal Reserve Board's Commercial Lending Sentiment survey, double the amount of respondents reported higher demand for commercial real estate loans in 2013 compared to 2012. Research shows that this figure represents the biggest improvement in demand indicators in more than a decade. The survey also revealed that 19% fewer respondents reported a tightening in standards for commercial real estate loans during the same period, also marking an improvement from a year ago when that change was just 11%. As the gap between these figures continues to upsurge, more capital will flow into commercial investment, an important puzzle piece in the recovery of the construction industry.

Berko & Associates has had the opportunity to structure and advise on many different construction loans across multiple asset classes within the past year, and we have seen a number of lenders become more comfortable with construction lending at low enough rates to entice a new onslaught of construction in and around New York City. Managing director of finance & capital markets Michael Korine spoke on a panel discussing the financing of development projects, where he emphasized that creating a relationship between sponsors and potential lenders is a key component to transacting, and that penetrating the market to find some of the more obscure lenders is exceedingly important to finding the best possible deal for clients.

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