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Getting deals done in today's market: Borrowers need to understand what lenders are looking for

March 17, 2008 - Financial Digest

With more bad news emerging every day about loan write-downs on residential mortgages, banks are hoarding capital and have slowed down lending to many asset types. Now, lenders are more concerned with the existing commercial mortgages on their balance sheet than adding more loans to their portfolio. Because of the current lack of liquidity in the real estate capital markets, borrowers who need to access debt must present their loan requests to lenders in the best possible light.

As a result of the current credit environment, commercial real estate lenders have become extremely cautious about their financings. All new deals are carefully scrutinized by loan officers and credit committees. The lending situation has been made worse by the removal of the most active (by volume) commercial mortgage lenders over the past five years - commercial mortgage-backed securitized (CMBS) lenders. Bond markets provide funding for these lenders, and until these markets are back in play, CMBS lenders are essentially on the sidelines. Experts are predicting the resurgence of bond markets at some point between the third quarter, 2008 and the first quarter, 2009. The absence of CMBS lenders has put borrowers in a tough position. The lending market has changed dramatically, and borrowers are realizing that the lenders who were once willing to provide 80% leverage are now finding it difficult to even reach 75%.

Borrowers who need financing in today's market should understand what lenders are looking for:

* Experience matters: In the current market, inexperienced borrowers are not getting a warm reception from lenders. Lenders, in general, are working to finance deals for borrowers who are familiar with the particular property type and location. They are not focusing on inexperienced borrowers because their mediocre deals can no longer be saved by the assumption that property values will inevitably increase in the future.

* Established property types: Lenders are reluctant to lend in untested markets or on new property types. Instead, they are arranging financing in primary markets, infill locations and stabilized assets. Secondary markets with specialized property types will be difficult to finance.

* Have a plan: If the property is not stabilized or if it is under-performing the market, a borrower must have a realistic, detailed plan of how they will add value to the property. This can be done through re-leasing, re-positioning or rehabilitation. In addition, borrowers need to prove to lenders that they have a solid understanding of their markets, i.e. competing properties, demographic trends, major competitors, new space coming online, etc.

* Equity, equity, equity: Borrowers should be prepared to invest more equity into their deal. Loan terms have changed, and lenders are demanding borrowers have more equity at risk compared to last year. At the height of last year's market, borrowers were able to get 80% LTV interest-only loans for ten years at a 1.15X DSC. Today, that same loan would be at 75% LTV with 30-year amortization at a minimum DSCR of 1.20X. Even if cash flow from the property has increased, the

amount of debt it can support has been significantly reduced, translating to lower values. In addition, the practice of underwriting on pro forma or future income has essentially stopped, and as a result, lenders are focusing only on current cash flow.

* Be realistic: Lenders accept that borrowers are optimistic, but unreasonable assumptions about cash flow growth or the underlying market fundamentals could cause an instant lost of creditability. Borrowers must be aggressive but reasonable with assumptions.

In this current market environment, active lenders are overwhelmed with loan submissions. The question is, how do you make your submission stand out? A mortgage can be of great use in closing a deal:

* Financial experts offer in-depth knowledge of the market and available terms.
* They can assist in mapping financing alternatives and will help develop an optimal financing strategy.
* Mortgage brokers often have long-term relationships with active lenders, which may lead to substantial discounts.
* Brokers can negotiate complicated loan terms on behalf of the borrower.
* They can help identify a lender that best suits the needs of their client.

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