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Q&A with Kondracki of Wawona Worldwide Capital: National commercial mortgage conditions

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Q. What kind of commercial mortgages are getting done today, given the credit crises?

A. Well, that is a good question. We receive ten or more applications for credit/day at this time. Notably, the CMBS market has dried up nationwide completely for deals under $5 million. Last year we were able to take office buildings, warehouses, and the like to the CMBS market for average size loans of $2 million or more. That sector has been shut down by all the major players, and most CMBS shops now are focusing strictly on large (greater than $5 million) multifamily loans. Nevertheless, small balance commercial loans are still getting done (loan sizes from $100,000 - $3 million) at regional banks versus money-center banks. Meanwhile the market for stated loans continues to shrink. Greenpoint is no longer available for stated loans, while the funds that are, have raised their minimum credit scores markedly. Still others have forgone lending to specialty assets like assisted living homes.

Q. How do you see the market for land loans, condo conversion loans and residential subdivision loans?

A. Land and condo conversion loans are virtually impossible to do in the middle part of the country. A lot of lenders have stopped doing any kind of commercial condo or land loans, particularly in Michigan and Ohio. There are still pockets of lender demand on the coasts, with land loans, and condo conversion loans still available in such major cities as Los Angeles and New York, mostly from hard money lenders. Such lenders want to see strong pre-sales (greater than 50%-70% of units pre-sold with 20% of the purchase price in cash in escrow) and firm contractual exits (example, construction loan). Such deals in Florida have all but dried up as there is a tremendous overhang of semi-built, new-build, and condo conversion properties. As far as residential subdivisions, with all the problems the home builders are having, no lender wants to hear about them. If we can get them done at all, lenders are not going above 25% - 30% LTV of the "as is" MAI values plus 40-50% of construction costs. The bottom line is that the commercial capital and credit markets are in de-leveraging mode and more and more cash equity will be required to get these types of deals done.

Q. What do you see for the future of commercial mortgage lending and where do you want to be in later 2008-early 2009?

A. I have interviewed a handful of local hard money lenders in the tri-state area and they tell me it is one of the best times to be in their business. In the last few months, since October of last year, they are seeing more and more applicants with higher and higher credit scores who are much less sensitive to interest rates and points. Most deals have cash flow or net operating income to support debt service with coverage ratios ranging from 1.20x - 1.30x. Lenders are being more conservative using lower loan-to-values on virtually every property type and are not supplying multi-year interest reserves. These days, requiring cross-collateral with other REOs that a borrower may have, as well as requiring a firm contractual exit are de rigueur. In this regard, we concur and we hope to be launching our own small balance hard money commercial lending fund some day soon.

So I think that the credit crises is far from over for commercial mortgage borrowers and lenders. More of the traditional and conventional lenders are going to cease up and stop lending, particularly if they were relying on the CMBS market to securitize their balance sheets and free up new lending capacity. For example, Bank of the West stopped lending on hotels last week. And many banks will only lend in or near major metro-urban centers. We will see more and more private capital enter the commercial mortgage market, maybe even from abroad, to intermediate this market during 2008-2009 and beyond. The good news is that unlike the residential housing market, where values are declining and foreclosures are on the rise, but for development projects, commercial real estate properties generally have positive cash flow or net operating income for debt service. So long as the recession is not too severe, most commercial borrowers should weather the storm.

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