# WILL DEBT SUPPLIERS

As the too-big-to-fail banks departed the commercial real estate sector during the Great Recession, local and regional stepped up to the plate. Now the big banks are back, but the financial giants face a competitive landscape. Financing is easy to access, good deals are getting harder to find.

By Steve Bergsman

During the Great Recession the big national banks were so hard hit that many of them locked away their checkbooks. If you thought it was tough to get a loan for a residence, it was even harder to find capital for commercial real estate development. Indeed, many long-term relationships between developers and investors and too-big-to-fail banks were severed and remain so even today. Three years into recovery, some of those ties no longer bind.

Stepping up to fill the gap in funding were the local and regional banks and credit unions — at least at the lower end of the deal-making spectrum in the $1 million to $10 million range.

In Columbus, Ohio, **Bradford Kitchen, SIOR**, president of Alterra Real Estate Advisors, comments, "we've not even bothered to go to the large banks because they weren't financing many deals. In the height of the downturn they were sending clients to other banks. A lot of smaller banks took business, financing a lot of deals where the large lenders weren't."

The story is not much different in the suburbs of Boston. **Arlon Brown, SIOR**, a senior vice president with Parsons Commercial Group in Framingham, Mass., notes, "for me, it's been the community and regional banks."

The community banks took up the slack during the recession from some of the national banks in the Boston metro area, Brown adds. "The local banks hired more sophisticated people and did a great job. For loans of less than $5 million the community banks certainly are competitive."

Now, with the economy in bloom once again, and with the banks having put most of their troubles behind, they want back in the game. Except the competition is pretty solid with local banks, credit unions, conduit players, life companies, and private equity pools all wanting to place money.

# meet the FINANCING DEMAND?

In Massachusetts, Brown says, everyone has gotten aggressive again. “We have a lot of regional and national banks active in lending. One regional banker told me he is competing for deals with the national banks and insurance companies in the $5 to $15 million range. The clients he looks at are the same ones that Wells Fargo, Bank of America, and life companies are looking at. “Everyone is as competitive as possible,” Brown says.

He is putting together a financing with a community bank on a 10-year loan at 4.5 percent, but it adjusts after five years. “The community banks for the past few years are really only giving a fixed-rate for five years where the regional and national banks and life companies will go out 10 years,” he says.

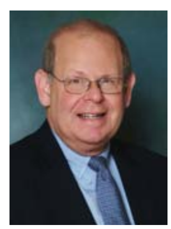
Still, Brown hasn’t done a life company deal in a “long, long time.”

All the lenders are back in the game, throwing a lot of money at deals, exclaims Kitchen. The debt market has gotten so competitive, one can now find forward deals, non-recourse bank loans, interest-only loans, and take-outs. There are even aggregations for bigger plays.

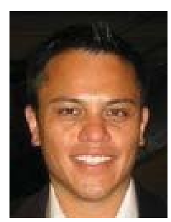
“Credit unions have been getting together as a collective,” says Kitchen. “A mortgage broker would underwrite a deal and then syndicate to 20 credit unions. About a year ago, we did a $3 million medical office building that way. The cap rate was about 8.5 percent.”

Is there anyone who can’t get a commercial real estate loan these days?

contributing **SIORs**



**ARLON BROWN,**
SIOR



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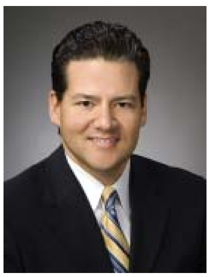

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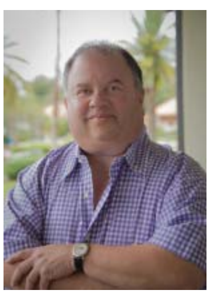

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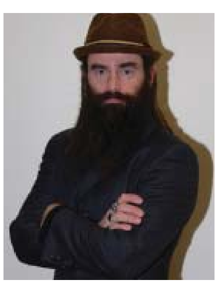

**GABRIEL SILVERSTEIN,**
SIOR

Foreign buyers looking to finance deals with U.S. lenders still have a slightly tougher time.

"We have a lot of Canadians coming to Columbus to buy properties because they can get a higher return than in Canada," says Kitchen, "but a lot of local banks don't want to finance Canadians because the loans are recourse and they don't want to have to chase a personal guarantee over the border if the deal goes bad. The options for the Canadians are all-cash or non-recourse debt, which is a little more expensive and the lenders are more picky."

*Professional Report* checked in with **Sandy Shindleman, SIOR, CCIM, CIPS, FRICS,** president of the Shindico Group in Winnipeg, to get his perspective. He's much more positive.

"We are seeing more and more big lenders like Wells Fargo treating Canadian investors the same as they treat domestic investors," he says. "Conventional debt is available. In terms of equity and debt financing, the Canadian banks are providing balance sheet lending to investors and Canadian real estate investment trusts are providing mezzanine and equity."

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Asked about the debt market in Canada, Shindleman says things are not much different than in the United States.

"The development pipeline in Western Canada is very robust from Manitoba to British Columbia," he observes. "Lenders have been very aggressive to get their flag in the ground in most cities and for most product types. We're talking about our prime banks, life companies, and credit unions as well as securitized loan pools. We typically have several bidders for development and refinance projects."

Shindleman adds, "in the month of September, we were doing five-year renewals in the 3.5 percent range for commercial buildings, and we are seeing a range, depending on the project, for all sub-4 percent loans at 70 percent loan-to-value. It gets more expensive above 70 percent LTV, but typically we don't see much lending beyond 75 percent LTV unless it's multifamily."

Asked if the aggressiveness of lenders has penetrated smaller markets, Shindleman responds to the affirmative. "My firm has done deals in such small Manitoba cities as Brandon, Portage la Prairie, Selkirk, and Winkler. We have financed retail and office in all of those places."

Another Midwest city experiencing Canadian and a drip of other international investments, is Cleveland. "Even if assets in Cleveland slip from 8 percent or 9 percent cap rates down to 5 percent or 6 percent, these are good, steady investments that will have nice reasonable returns," says **Brian Hurtuk, SIOR**, managing director for Colliers International in Cleveland, Ohio.

Cleveland, like other Midwest cities, finally hit the radar for lenders after seeing East and West Coast cities flooded with liquidity.

"Even though investors wanted to come here, it's really not until the last 14 months that all the folks out there from the financial markets bought into Cleveland as well, putting up the financing to make deals happen," says Hurtuk.

In play in Cleveland are conduit lenders, local banks, and the big regionals and nationals such as PNC, Fifth Third, and Wells Fargo.

Here's where the excitement in Cleveland resides: 2,500 new hotel rooms completed or under construction; expansion of medical industry spurred by Cleveland Clinic; and a downtown renaissance with older office buildings being converted into residential.

"A lot of buyers coming to Cleveland are value-add players, willing to put money into tenant improvements and renovation, but it is a little bit of an uphill battle to get the major financial players to jump in. Things are evolving," Hurtuk says.

Elsewhere in America, there is plenty of debt available for good deals, but financing has gotten so competitive that lenders need to get much more creative.

"Capital is very easy to find; it's the deals that are hard to find," avers **Mike Garrido, SIOR**, president of Trident Ventures LLC in Milton, Mass. He has been employing "forward deals" especially when working with private equity to get transactions accomplished.

"Private equity has to be more creative to get the returns needed, that's why they are going further forward on deals," Garrido notes. "Some insurance companies are even getting into funding the forward take-out of an asset."

Garrido just completed a $42 million financing for a GE Aviation project, a 300,000-square-foot facility in Lafayette, Ind. The property will be used to build jet engines for a new class of single-aisle planes, in cooperation with Brazil's Grupo Safra.

"This was a forward contract; the facility won't be ready until 2016, but GE Aviation needed to find a developer, a capital source and pre-fund the deal," says Garrido. A private equity fund provided a forward take-out.

Garrido adds, "I worked on a number of these deals over the past couple of years, as lenders are trying to get more creative, to lock up deals because good ones are hard to find."

Even with all that, two of the busiest debt sectors have been CMBS and insurers. Originations for CMBS are expected to surpass $100 billion this year, which would be the first time since 2007. Last year, CMBS originations totaled $86.1 billion.

As for life companies, they are also very active.

"Besides CMBS coming back very strongly and doing good volume, the life companies are putting a lot of money out," notes **Gabriel Silverstein, SIOR**, president of Angelic Real Estate, New York City. "Last year was a record year for life companies on mortgages. This year will break that record."

To which Silverstein adds, "the emergence of debt funds, a non-regulated, institutional type lender, for particularly the bridge loan space, has been one of the best developments in the debt world over the last two decades."

About 30 percent of the placements Silverstein has done in the past three years have been with low-interest-rate, debt-fund lenders, which are usually backed by pension funds, insurance companies, or other institutional lenders that have pooled capital. This is relatively short-term lending, generally two to five years, so the cost is a bit more than a bank loan. Debt fund capital, depending on the project, can be had in the 5 percent to 6 percent range.

Silverstein doesn't eschew the banks. Recently, his company did two non-recourse deals in Texas with local banks. On smaller deals, he says, the local banks are better when the backstory of the deal requires an understanding of the neighborhood.

"There is debt available for anything you want," Silverstein reiterates. "You still need to look for it. A lot of old relationships don't exist and those groups with whom you had a relationship may not be able to do the same kind of deals. Also, there is a whole new category of lenders out there. The lending world is an evolving space." ■



## EIGHT TIPS FOR DEALMAKING

1 It is important to have a strong sponsor. A good track record is helpful.

2 The property needs to be in a good location.

3 You still have to put cash into the deal; 75 percent LTV remains the norm.

4 Try to get financing arranged prior to submitting an offer.

5 Do your homework. The lender wants to know everything, from the local real estate market to the competitiveness of a tenant's products.

6 Take time to meet with the lender. Sometimes the lender's slate is full so they don't need to make a competitive loan before the end of the year. Why waste your time?

7 Maintain relationships with lenders. If a lender comes to you asking for collaboration in regard to appraisal or valuation, even if the project isn't yours, be helpful.

8 Players in a deal may rely on you for local knowledge, from building inspectors to specific contractors.