MID ATLANTIC REAL ESTATE JOURNAL
NEW JERSEY-PENNSYLVANIA-DELAWARE-VIRGINIA

Dec. 28, 2007 - Jan. 10, 2008 Volume 19, Issue 24

LENDER'S DIRECTORY SPOTLIGHT

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All industries must adjust in new lending environment

RADNOR, PA — Remember when getting financing for your real estate project was easy? When the spread was proudly displayed on your application with the hollow assurances that the broker would deliver the deal as it was approved? Those days are gone as with all the goodwill built up since the last capital markets crisis that occurred in 1998. The horror stories are abundant of how borrowers were taken to the cleaners by securitization/conduit lenders almost as quickly as the demand for the CMBS paper dried up. There are rumors of which lender is closed down and which ones are trying to conduct business, however none of these CMBS lenders are willing to give you any assurances of the interest rate you can expect or if they will close. You cannot trust your CMBS lender to deliver.

As we try to piece back together the multitude of shredded purchase contracts, we are faced with the frightening reality that we need figure out how to survive in this environment. While nobody is immune from what has happened, the reason it has happened is not due to poor commercial real estate fundamentals, so one would think that good real estate transactions should still get completed. Where will the money come from and what kind of structure is doable?


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The Tenant In Common industry finds itself in a position that is better then its competitors. The TIC model is at the point where the debt is more expensive then the return required by the investors. This allows the sponsor to accept less debt for his project without impacting the yield to the investor. By accepting less debt, the TIC sponsor can borrow money from conservative portfolio lenders.

Before the capital markets meltdown, sponsors were able to make almost any deal work given the positive leverage they were receiving from the debt. However, today only deals that are purchased properly will meet the TIC investor's demands that an upside be created when interest rates stabilize in the future.

Today's deals require a portfolio lender and a short-term mezzanine lender. Typically portfolio lenders are not flexible regarding deal structure, however, they will listen when you offer them an opportunity to lend on a "class A" property at a 50-60% LTV. These lenders may need you to educate them on the TIC structure and its requirements but if you put in the time they will come to realize it is good, safe business for them. Conditions such as long "interest only" periods, 30-year amortization periods and non-recourse will be difficult to achieve but you may get a little traction on these terms if the leverage level is kept low.

Mezzanine lenders that accommodate necessary TIC requirements are becoming more popular. The strict identification requirements for 1031 exchanges allows a finite period for an investor to identify and invest. Once a property is identified for investment, investors need to close or they will lose the ability to complete the 1031 Exchange. This makes the mezzanine loan an important component to the transaction as you can no longer have any real expectation to get the equity lined up before the sponsor has closed on the real estate. In today's environment, a closed deal is more attractive then a deal that looks good on paper.

Given the high level of required Mezz/Equity and the expense associated with it, a combination of events will have to occur for business to continue and to maintain the current cost structure. Those events include the sponsor, reps and brokers willingness to work cheaper and the TIC investor's willingness to adapt their investment criteria. Also, of course, not overpaying for property. All of the above are occurring as a matter of survival. Clearly this is not going to be an easy time, so be ready to adjust to match the demanding requirements of today's new reality.

Michael Blank is the director of acquisitions and finance for DeSanto Realty Group, a Tenant In Common sponsor based in suburban Philadelphia. ■