COMMENTARY

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U.S. Commercial Real Estate Finance Buttressed by Private Bridge Lenders

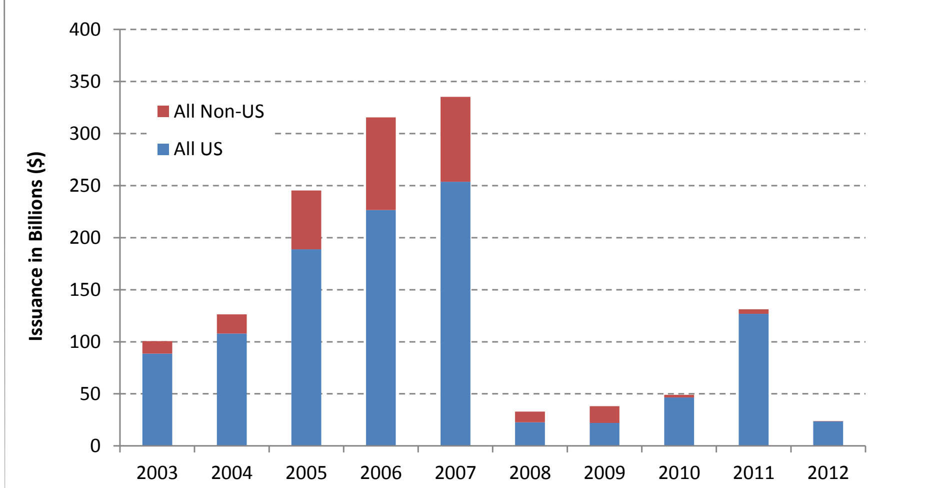
At a time when capital is not readily available for commercial real estate from traditional lenders, borrowers are getting help refinancing debt from non-bank capital sources: private bridge lenders.

About 1,200 commercial mortgage loans worth $17.3 billion will mature this year and more than $49 billion worth of commercial real estate debt will mature in 2013, according to **Fitch Ratings** which tracks the performance of bonds pooling commercial real estate loans.

Refinancing this debt will be tricky because we live in a world where banks are shrinking their balance sheets and the number of lenders has been diminished by the hundreds since the start of the credit crisis in 2008.

FDIC-regulated banks are focused on getting loans off of their balance sheets, rather than bringing on new loans.

In the secondary marketplace, where most commercial banks sell off their mortgage portfolios, buyers prefer pools of loans that have been seasoned which means less money is available to finance loans for refinancing and purchases.



Source: *Bloomberg*

At the same time, billions of dollars of commercial loans have been underwritten for property that is now worth less than the mortgage note.

Many of these income-producing properties are earning revenues that are now much lower than when the loan on the property was first underwritten.

The drop in property values and a decline in the income generated by commercial real estate properties have hurt current owners.

For many, the only option is to arrange a discounted payoff from their lender or, less commonly, extend or modify the terms of the loan.

Some property types likely will attract fewer investors and lenders willing to finance the purchases.

Hospitality, for example, has suffered the most because of a glut of supply that comes just as consumers travel less.

Those who stand to benefit from the current market conditions include investors who want to buy distressed income producing properties and private commercial bridge lenders.

Kris Roglieri

Banks are discounting loans underwritten at the height of the 2006-2008 property boom, benefitting distressed property investors interested in commercial real estate.

Some of these investors as well as borrowers whose loans are due to mature in the next five years turn to private bridge lenders to finance discounted note payoffs.

This new breed of lenders is useful to borrowers and investors in two scenarios.

In one scenario, we have the investor who has a current commercial loan on a property that is coming due for refinance, the property's value has dropped and the owner has little or no equity in the property.

In this case the current lender and other traditional lenders likely will not refinance this loan.

Commercial real estate bridge lenders can step in and finance a discounted note payoff, have the borrower re-stabilize the property – for example, bring in new tenants and improve the rent roll – and then the borrower can apply for another mortgage with a longer maturity.

In the case where a property has already been foreclosed on the bank will likely discount the value of a distressed property as part of an attempt to move the assets off of their balance sheets.

This creates a huge opportunity for new investors to buy these distressed properties using bridge lenders. The distressed investor relying on commercial real estate bridge lenders can apply for a more traditional mortgage as soon as a property is stabilized.

Kris Roglieri is founder of Prime Commercial Lending which is based in Albany, N.Y. The firm is a lender that finances real estate loans, equipment leases, and sale leasebacks.