

Refinancing commercial real estate: Don't wait until it's too late

BY BRYAN POWELL

With more than \$500 billion of commercial real estate loans maturing during the next few years, and with declining market values and a dearth of lenders willing to lend, it doesn't take much imagination to visualize foreclosures looming on the horizon. So what can a commercial property owner whose loan matures in the next couple of years do?

Consider the following:

1. Don't expect your loan to roll over easily. Even the banker's mantra "a rolling loan gathers no loss" loses its luster when the banker is faced with hundreds of rolling loans that look more like an avalanche.
2. Expect to dig deep to come up with additional equity to qualify for any extension of maturity. Most lenders simply will not refinance or extend a loan balance without some kind of paydown.
3. Try to find additional or substitute collateral that you can offer the lender. Consider letters of credit, partnership or LLC interests, personal guaranties, or



other real estate collateral even if already encumbered.

4. Have a good understanding of what your property's value is today. Recent appraisals are less trustworthy in a fast-declining market. Think in terms of what you can do to improve cash flow and reduce operating expenses.
 5. Accept that loan-to-value (LTV) ratios will be less than your original loan. Current maximum LTVs are often between 60% and 65%.
 6. Underwriting criteria are more stringent than before. For example, debt service coverage ratio requirements might be no less than 1.3x based on a 10-year fixed-rate loan with a 25-year amortization schedule and an 8% mortgage rate (even on a good day!).
- Don't be lulled into the "I'll wait for the market to turn around before refinancing" mentality. Commercial real estate cash



flows are not likely to rebound quickly as the economy begins to improve due to pent-up demand. Now is the time to think strategically and act accordingly.

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