Commercial Real Estate in the "New" Economy
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The good news is that lenders are beginning to make commercial real estate loans again. The bad news—lending standards are strict. Only the most credit-worthy borrowers will qualify for these loans for the foreseeable future.

Required Equity Contributions and Higher Interest Rates
Your first hurdle is to determine how much equity you will contribute. In the current environment, count on the required equity contribution starting around twenty percent of the purchase price or appraised value. As you negotiate the equity required, remember—the lower the equity, the higher the interest rate. If able, you are better off making a large equity contribution as that goes to your ultimate value instead of interest expense.

Debt Service Coverage
In addition, lenders will put little stock in the possible appreciation value of commercial real estate. In fact, lenders will likely bet against any short term appreciation. As a result, look for lenders to require strong documentation of the ability to service the debt, either through rental income or another source of revenue which can be encumbered as additional collateral.

Re-Appraisals
Among the newest protections is the lender's right to re-appraise the real estate, at your expense. Most loan document language now allows the bank to require re-appraisals at least once annually. Most notably, much of the re-appraisal language allows a lender to require additional collateral in the event of a material decline in the value of the real estate. Unfortunately, while lending is re-emerging, we are not totally out of the woods. Look for lenders to continue imposing strict requirements on commercial real estate loans.